

Public Document Pack
SOUTHEND-ON-SEA BOROUGH COUNCIL

Audit Committee

Date: Wednesday, 26th September, 2018

Time: 6.30 pm

Place: Committee Room 1 - Civic Suite

Contact: Colin Gamble - 01702 534820

Email: committeesection@southend.gov.uk

AGENDA

- 1 Apologies for Absence**
- 2 Declarations of Interest**
- 3 Audit Committee Role in Risk Management Framework (Pages 1 - 8)**
Report of the Chief Executive
- 4 BDO: Audit Completion Report to the Audit Committee 2017/18 (updated and finalised) (Pages 9 - 54)**
Report of the Chief Executive
- 5 BDO: Annual Audit Letter, Audit for the year ended 31 March 2018 (Pages 55 - 66)**
Report of Chief Executive
- 6 Counter Fraud & Investigation Directorate Quarterly Performance Report (Pages 67 - 74)**
Report of the Chief Executive
- 7 Internal Audit Service Quarterly Performance Report (Pages 75 - 106)**
Report of the Chief Executive
- 8 Information Items (Pages 107 - 118)**
 - Audit Committee Update, Issue 25
 - Audit Committee Update, Issue 25 Special Briefing

Members:

Cllr M Davidson (Chair), Cllr N Folkard (Vice-Chair), Cllr B Ayling, Cllr A Bright, Cllr K Buck, Cllr L Burton, Cllr D Nelson, Cllr C Willis, Cllr R Woodley and K Pandya

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Southend-on-Sea Borough Council

Agenda
Item No.

3

Report of the Chief Executive

to

Audit Committee

on

26th September 2018

Report prepared by: Andrew Barnes, Head of Internal
Audit

Audit Committee Role in the Risk Management Framework

A Part 1 Public Agenda Item

1. Purpose of Report

1.1 To provide Audit Committee with:

- a clear understanding of its role in respect of the Council's risk management framework
- assurance over the current operation of the risk management framework
- an outline of the future plans to develop the risk management approach during 2018/19 and beyond, as the changes introduced by Southend 2050 impact on the governance framework and arrangements for the Council.

2. Recommendation

2.1 It is recommended that Audit Committee notes the role that it has to play in the Council's risk management framework, the assurance over its current operation and the future plans to develop the Council's governance framework arrangements, including risk management, as a result of the changes arising from the introduction of Southend 2050.

3. Background

3.1 In determining the Audit Committee's responsibilities towards risk management, authorities should have regard to the responsibilities of other committees and the specific responsibilities of those charged with governance in relation to risk management.

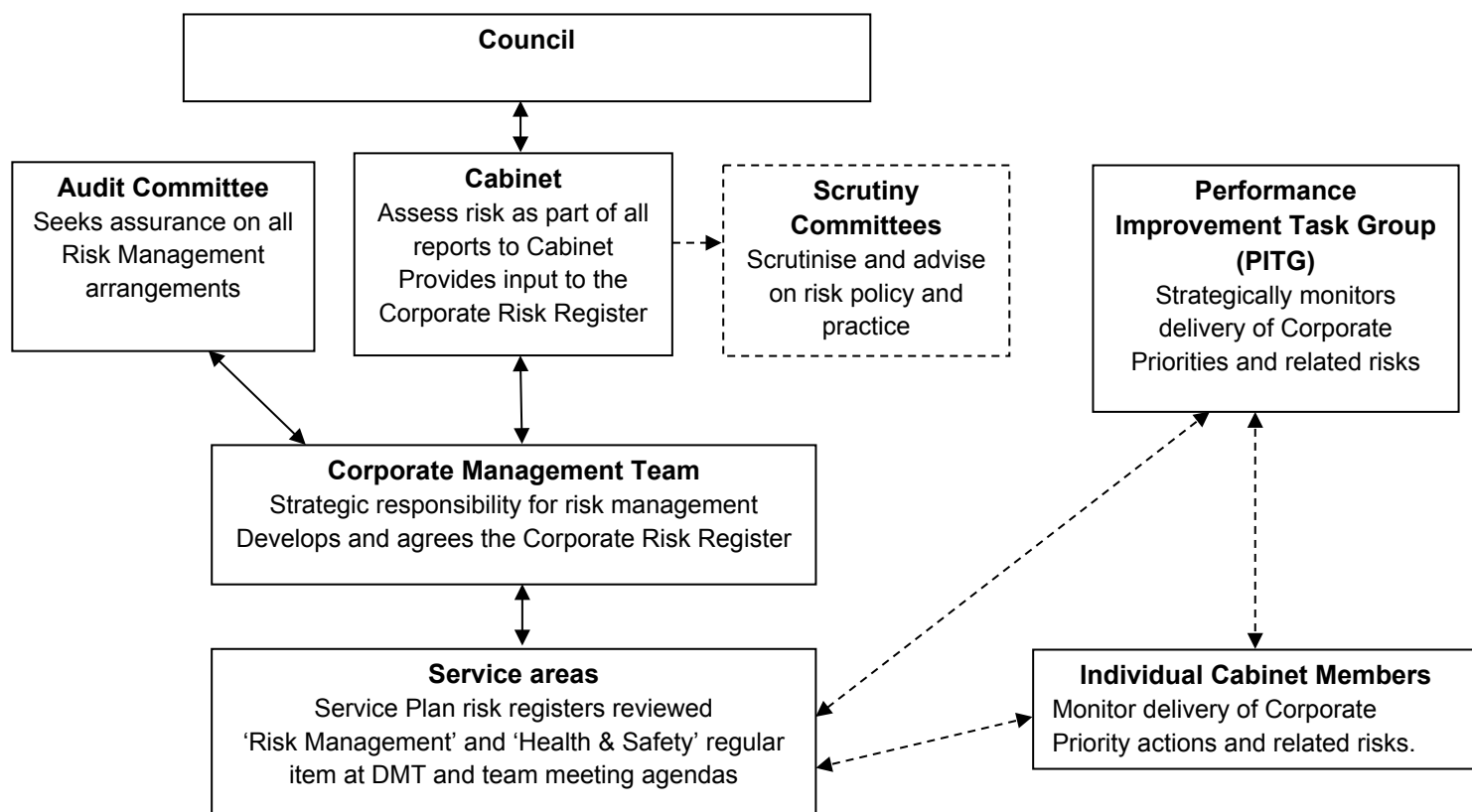
4. Role of the Audit Committee

4.1 As recorded in the Council's Risk Management Policy (June 2015) the roles and responsibilities and risk management reporting structure are as follows:

Roles and Responsibilities

Group or Individuals	Role & Responsibilities
Leader of Council	<ul style="list-style-type: none"> Ultimate Member with responsibility for embedding risk management throughout the council
Cabinet	<ul style="list-style-type: none"> Approve and adopt the Risk Management Policy and Strategy Contribute towards identification of strategic risks. Receive reports on key strategic risk issues, including as part of the annual statement of assurance, to ensure that corporate business risks are being actively managed. Actively consider the risk management implications contained within reports to Council, Cabinet and other Council committees
Audit Committee	<ul style="list-style-type: none"> Assess and approve the corporate risk arrangements and monitor the effective development and operation of good practice risk management and corporate governance arrangements across the Council
Scrutiny Committees	<ul style="list-style-type: none"> Be consulted and comment on forthcoming decisions of Cabinet and Council and the development of policy. Conduct inquiries into matters relating to risk management, make recommendations on policies, budget and service delivery
Members	<ul style="list-style-type: none"> Contribute to the identification of risks relating to business planning across the Council and its partners

Risk Management Reporting Structure



4.2 CIPFA's document 'Audit Committees: Practical Guidance for Local Authorities' (2018) outlines that the role of the audit committee in relation to risk management covers three major areas:

First, assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks. The specific actions this requires include:

- overseeing the authority's risk management policy and strategy and their implementation in practice
- overseeing the integration of risk management into the governance and decision making processes of the organisation
- ensuring that the AGS is an adequate reflection of the risk environment.

Second, keeping up to date with the risk profile and the effectiveness of risk management actions by:

- reviewing arrangements to co-ordinate and lead risk management. An example of such an arrangement is the existence of a group to examine, challenge and support the risk assessment process to ensure consistency [at Southend this is the Good Governance Group]
- reviewing the risk profile and keeping up to date with significant areas of strategic risks and major operational or major project risks and seeking assurance that these risks are managed effectively and owned appropriately
- seeking assurance that strategies and policies are supported by adequate risk assessments and that risks are being actively managed and monitored
- following up risks identified by auditors and inspectors to ensure they are integrated into the risk management process.

Third, monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management by:

- overseeing any evaluation or assessment such as a risk maturity assessment or risk benchmarking
- reviewing evaluation or assurance reports on risk management and monitoring progress on improvement plans
- monitoring action plans and development work in the field of risk management practice.

Flexibility in the audit committee agenda to adapt to new or heightened risks will ensure that the committee is responsive and focused on priority issues.

4.3 From this it can be seen that the Audit Committee's role as set out in both the Council's Policy and the expectations of CIPFA are to provide an oversight and assurance function of the design of the arrangements and the effectiveness of the implementation of those arrangements, but that the actual responsibility to manage the risk management arrangements themselves, is the responsibility of CMT reporting to Cabinet.

4.4 This is as currently set out in the Terms of Reference of the Audit Committee that state that two of the four purposes of the Audit Committee are to:

- provide independent assurance of the adequacy of the risk management framework and the internal control environment
- provide independent review of its [the Council's] governance, risk management and control frameworks.

Therefore the Audit Committee should focus on delivering its role in respect of risk management as outlined above, so that the Council can benefit from the assurance and strengthening of the risk management arrangements that the effective implementation of the Audit Committee role can help to deliver.

5. Assurance provided

5.1 In 2017/18 the Audit Committee received independent assurance from a Senior Manager from Mazars, who undertook a review of the risk management framework and reported to the Council and the Audit Committee.

This concluded that:

- There is a strong understanding of risks being faced by individual Directors, but that this is not effectively captured within the formal risk management framework
- The framework meets good practice, but it is inconsistently applied and therefore there is still work to do to embed it
- There is embedded performance management throughout the organisation, but no link between this activity and the risk registers
- There is a discipline around the production of the Corporate Risk Register, but the value of the process is not optimised
- The Framework is not overly onerous on management, but there is a perception of bureaucracy
- A good infrastructure of people resources to support implementation exists, but there is an over reliance on them in terms of responsibility for risk
- The framework and approach should focus on horizon scanning and cascade of the emerging risk to the relevant parts of the business and developing criteria to help facilitate efficient escalation of risks
- There are gaps in assurance and insufficient evidence of the management of impact for some risks, despite the regular update and reporting.

5.2 As a result it was agreed that further work would be undertaken to build on the good foundations that were already in place so that risk management would become better embedded in the way the Council works and from this the benefits that this could deliver would be realised.

5.3 With the Council's work on developing the Southend 2050 ambition and the changes to the way that the Council works that will follow, the work to further embed the risk management arrangements will re-commence as part of the review of the Council's governance arrangements in response to the changed approach being sought to deliver Southend 2050.

6. Future plans to develop the risk management approach

6.1 With the development of the Southend 2050 ambition and outcomes there is going to be a need to review the Council's governance arrangements to support the Council's element of the delivery of that ambition, to ensure that these are:

- effective, but as simple as possible and easy to understand
- joined up and complementary, not conflicting with each other
- designed around customers
- making best use of technology and will be digitally enabled where this makes sense
- compliant with legislative requirements and ensure that resources are used efficiently and effectively
- driving the desired outcomes.

6.3 This review will include the risk management arrangements and there are a number of core principles that will be central to this work, to ensure that the required outcomes are achieved. These include that:

- risk management is a positive value added activity, focused on achievement and successes, not a negative bureaucracy – by changing the perception and raising awareness officers will have increased confidence when managing operational risks
- management are responsible for risk management and resources that support the framework are there to 'support and challenge' not 'own and do'
- wider Member involvement in identifying and monitoring the most Strategic Risks the organisation faces would add value, the roles of the Audit Committee, Scrutiny and Cabinet are critical to robustness of the overall Framework
- the Southend 2050 ambition and outcomes need to drive the risk management, budget and outcome delivery plans
- by getting the conversations happening with the right people, at the right time and in the right place, the processes to capture and report risks will be simple and become part of business as usual
- the framework will seek to ensure joined up Strategic, Operational and Project Risk Management whilst recognising the differences between them.

6.4 The review will include updates to the risk management framework with the aim that it becomes part of business as usual and that the Council can fully gain the benefits that can be provided by an effective and embedded approach to risk management.

6.5 It is expected that this review will take place over the months following the approval of the Southend 2050 ambition and outcomes, with a proposed updated risk management framework being reported to the Audit Committee in April 2019.

7. Corporate Implications

7.1 Contribution to Council's Vision & Corporate Priorities

As risks are simply 'the things that could prevent us from achieving our objectives' any action to ensure that the risk management approach is proportionate and embedded will have a positive effect on the successful achievement of objectives, either through improving outcomes or from achieving the outcome with less resource input. It will also (through increased understanding of risk and confidence in the assurances available) enable management to exploit risks within the risk tolerance set by senior management and Members.

7.2 Financial Implications

There will be a cost to the updated risk management arrangements, but for the most part, this can be met by refocusing in-house resources currently involved with risk and assurance activity, both within management of services and the back office teams who support the business.

By aligning the input across the Council, there will be efficiencies that can be driven out and/or better outcomes from the time spent, which will save time in the long run both in services and corporate teams.

7.3 Legal Implications

None

7.4 People Implications

Effective risk management requires ownership of risk by managers and management teams. It requires the Senior Leadership Team to take on a more active role in the risks that are corporate in nature and requires the Corporate Management Team to focus on the very strategic risks to the organisation. It requires the support services, both within the services themselves and the corporate teams to potentially refocus their own activities to support the risk management framework in a more effective way, so that it becomes part of business as usual.

7.5 Property Implications

None

7.6 Equalities and Diversity Implications

None

7.7 Risk Assessment

The risk of not managing 'risk' robustly is that objectives will not be met, or that the opportunities to make efficiencies in how outcomes are achieved across the organisation as a whole are lost. Decisions themselves will be weaker and/or the ability to evidence robust decision making becomes more challenging.

7.8 Value for Money

The planning of revised arrangements will be developed so that the need for additional resource is minimised. Many of the actions can be carried out using existing resource. Minimising additional cost is likely to require a commitment by the Council and their management teams to give internal communications, in respect of risk, increased levels of attention.

The Council has contractual relationships with providers of audit and assurance services who can provide any specialist support or additional capacity required. These services are procured via framework agreements, which will seek to offer value for money for the services being procured.

7.9 Community Safety Implications

None.

7.10 Environmental Impact

None.

8. Background Papers

The following documents are available on request:

- a. CIPFA – Audit Committees Practical Guidance 2018
- b. CIPFA – Audit Committee Update 24: The Audit Committee Role in Risk Management 2018
- c. Southend Council - Audit Committee Terms of Reference 2018

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Report of the Chief Executive
to
Audit Committee
on
26th September 2018

Report prepared by: BDO External Auditor

BDO: Audit Completion Report to the Audit Committee 2017/18

Cabinet Member - Councillor John Lamb

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 Further to the report made to the July meeting of the Committee, this report updates and finalises the summary results of the work completed for the 2017/18 financial year with regard to:
- the opinion on the Statement of Accounts
 - the conclusion on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (the VFM conclusion).

2. Recommendation

- 2.1 The Committee accepts the updated Report to the Audit Committee 2017/18.**

3. Background

- 3.1 This Audit Completion Report summarises the key issues arising from the work BDO have carried out during the year as the Council's auditors, and highlights the key findings that should be considered by the Council.

4. Corporate Implications

- 4.1 Contribution to Council's Aims and Priorities

This audit work contributes to the delivery of all the Council's Aims and Priorities.

- 4.2 Financial Implications

The fee for the audit work is set by Public Sector Audit Appointments Limited and agreed with the Council before the start of the audit. The code audit fee for 2017/18 was £142,816. Issues arising during the course of the audit can impact on the audit fee payable.

- 4.3 Legal Implications

The Council is required by statute to have an external audit of its activities that complies with the requirements of the Code of Audit Practice (the Code) issued by the National Audit Office. By considering this report, the Committee can satisfy itself that this requirement is being discharged.

4.4 People and Property Implications

None

4.5 Consultation

The contents of this report has been discussed and agreed with the Chief Executive and the Director of Finance and Resources.

4.6 Equalities Impact Assessment

None

4.7 Risk Assessment

Periodically considering whether the external auditor is delivering the agreed Annual Audit Plan helps mitigate the risk that this statutory requirement is not met.

4.8 Value for Money

The report includes the auditor's conclusion on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources (the VFM conclusion)

4.9 Community Safety Implications and Environmental Impact

None

5. Background Papers

None

6. Attachment: BDO Audit Completion Report 2017/18

SOUTHEND-ON-SEA BOROUGH COUNCIL

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

18 September 2018

CONTENTS

WELCOME.....	2	APPENDIX II: AUDIT DIFFERENCES	23
OVERVIEW	3	APPENDIX III: RECOMMENDATIONS AND ACTION PLAN.....	26
KEY AUDIT AND ACCOUNTING MATTERS	6	APPENDIX III: RECOMMENDATIONS AND ACTION PLAN.....	28
OTHER REPORTING MATTERS.....	15	APPENDIX IV: MATERIALITY	33
CONTROL ENVIRONMENT	16	APPENDIX V: INDEPENDENCE	34
WHOLE OF GOVERNMENT ACCOUNTS.....	17	APPENDIX VI: FEES SCHEDULE.....	35
USE OF RESOURCES	18	APPENDIX VII: DRAFT LETTER OF REPRESENTATION	36
APPENDIX I: REVIEW OF JOURNALS	22	APPENDIX VIII: AUDIT QUALITY	41

WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit Committee. At the completion stage of the audit it is essential that we engage with the Audit Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit Committee meeting on 25 July 2018, and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person. For more information on our respective responsibilities please see the Appendices.

In communicating with those charged with governance of the Council and the Group, we consider those charged with governance of subsidiary entities to be informed about matters relevant to their entity. Please let us know if this is not appropriate.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit Committee in reviewing the results of the audit of the financial statements of the Council and consolidated entities (together the 'Group') and use of resources of the Council for the year ended 31 March 2018.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

AUDIT SCOPE AND OBJECTIVES	
Audit status	We have completed our audit procedures in accordance with the planned scope and our objectives have been achieved.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan to you dated 9 April 2018.
Materiality	Our final materiality is £7.4 million for the Council and £7.6 million for the Group. Our materiality levels have not required reassessment since our audit planning referred to above, but have been updated to reflect the gross expenditure reported in the draft financial statements presented for audit. We set the clearly trivial threshold at £185,000 for the Council and £190,000 for the Group.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.
Group audit	<p>Our approach is designed to ensure we obtained the required level of assurance across the components of the Group in accordance with ISA (UK) 600 (Audits of Group Financial Statements). This objective has been achieved.</p> <p>To summarise our audit coverage:</p> <ul style="list-style-type: none"> Total group expenditure: 97% full audit and 3% Group level procedures Total group assets: 98% full audit and 2% Group level procedures.

OVERVIEW

KEY AUDIT AND ACCOUNTING MATTERS

Material misstatements	<p>Our audit procedures have not identified any material misstatements.</p> <p>However, since approval of the draft financial statements, the Council was notified by Essex County Council that the actuary statement provided for the Essex Pension Fund for preparation of those financial statements required amendment. The updated actuary statement subsequently provided resulted in a material amendment being required in respect of the pension fund liability. This has led to an increase in the Council pension liability of £8.554 million, and an increase in the Group pension liability of £9.393 million.</p> <p>The Council have also adjusted for non-material differences totalling £0.254 million identified by the auditors of South Essex Homes Limited.</p>
Unadjusted audit differences	<p>We are required to bring to your attention audit differences that we have identified, but you are not proposing to adjust. These included:</p> <ul style="list-style-type: none"> Understatement of the creditor balance relating to Housing Benefit subsidy of £0.268 million. This was due to a difference between the instalment from DWP which related to the prior year of £0.212 million (overstatement) and a net different between the ledger and the subsidy claim form of £0.480 million (understatement). Brought forward misstatement in respect of a cut off error resulting in the overstatement of income of £0.290 million. <p>If corrected, these audit differences would increase the deficit on the provision of services for the year by £0.558 million.</p>
Control environment	<p>Our audit did not identify any significant deficiencies in internal controls.</p>

KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES

Sustainable finances	<p>The 2018/19 and 2019/20 budgets reflect further reductions in Government support and require savings of £7.9 million and £7.5m in each year respectively to deliver a balanced budget. In the medium term, there are budget shortfalls of £4.9 million in 2020/21 and £4.5 million in 2021/22 that will need to be addressed.</p> <p>While there is a recognised funding gap in the Medium Term Financial Strategy (MTFS), we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.</p>
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OVERVIEW

AUDIT OPINION	
Financial statements	We issued an unmodified opinion on the consolidated Group financial statements and the Council financial statements for the year ended 31 March 2018 on 31 July 2018
Other information	We issued an unmodified opinion on the consistency of the other information in the Statement of Accounts with the financial statements and our knowledge.
Annual Governance Statement	We had no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.
Use of resources	We issued an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018 on 31 July 2018.
OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE	
Whole of Government Accounts (WGA)	The Council is below the audit threshold of £500 million for a full assurance review of the WGA Data Collection Tool. We issued the relevant part of the assurance statement to the National Audit Office by the 31 August deadline.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix V.
Management letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix VII.

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS OVERVIEW

We assessed the following matters as audit risks, as reported in our Audit Plan dated 9 April 2018. Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1 ■ Management override of controls	<p>Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We have:</p> <ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. 	<p>Our audit work in relation to journals has not identified any significant issues.</p> <p>We have not found any indication of management bias in accounting estimates.</p> <p>Our views on significant management estimates in respect of property revaluations, the valuation of the pension scheme and the bad debt provision are included below.</p>

17


KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	Property, plant and equipment valuations	<p>Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the current value or fair value (as applicable) at the balance sheet date.</p> <p>The Code requires management to carry out a full valuation of its land and buildings on a periodic basis (at least every 5 years). In the intervening years, management is required to assess whether there has been a material change in the value of its assets that should be accounted for.</p> <p>As part of the 5 year rolling re-valuation programme, all schools have been re-valued in 2017/18. Upon review of the revaluation schedules for these assets, the upwards revaluations were seen to total £32m and downwards revaluations totalled £0.6m. We concluded that there is a significant risk of material misstatement of asset values.</p> <p>2017/18 is the second year that the Council has used the current external valuers and we identified a material error in the valuations they provided in the first year, which increases our view of the associated audit risk.</p>	<p>We have:</p> <ul style="list-style-type: none"> Reviewed the instructions provided to the valuer as well as the valuer's skills and expertise in order to determine if we can rely on them as a management expert Confirmed that the basis of valuation for assets valued in year is appropriate based on their usage Confirmed that the valuation movements are consistent with the expectations provided by independent data about the property market Confirmed that the assets not specifically valued in the year have been properly assessed to confirm that their reported values remain materially correct Confirmed that an instant build modern equivalent asset basis has been used for assets valued at Depreciated Replacement Cost. 	<p>From our review of the instructions provided to the valuer and our assessment of the expertise of the valuer, we are satisfied that we can rely on the majority of their work. We are not satisfied that we can place reliance on all of the school floor areas used in the valuation calculations prepared by the valuer, as detailed on the following page.</p> <p>For the sample of PPE assets and investment properties reviewed we are satisfied that the basis of the valuation for each asset is appropriate and that the revaluation movements have been correctly accounted for. Our review of the reasonableness of valuation assumptions applied is noted overleaf.</p>

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Property, plant and equipment valuations

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
<p>Land and buildings are valued by reference to existing use market values</p> <p>Dwellings are valued by reference to open market value less a social housing discount</p> <p>Investment properties are valued by reference to highest and best use market value</p> <p>Some specialist buildings are valued at depreciated replacement cost by reference to building indices</p>	<p>The Council engaged an external valuer to value the asset categories detailed on the previous page as at 1 April 2017 in line with the rolling revaluation policy. This resulted in a net upward revaluation movement of £31.224 million in the year for PPE and a gain of £3.212 million for investment properties.</p> <p>We assessed the valuer’s competence, independence and objectivity and determined we could largely rely on the management expert. We are not, however, satisfied that we can place reliance on the floor areas used for 5 of the schools revalued. For these 5 assets, the floor areas applied were found to be misstated when comparing to source documentation. The movement in the valuations arising from correcting these floor areas was concluded to be trivial.</p> <p>We reviewed the valuations provided and the valuation methodology applied and, in all cases, confirmed that the basis of valuation for assets valued in year is appropriate based on Code requirements for all assets.</p> <p>The valuer also confirmed that there was a material movement in valuation between valuation date and year end. A net re-valuation gain of £35.907 million has been recognised in respect of this. This movement has been calculated by applying a percentage increase to each of the categories of assets where an increase in value was assessed to have occurred, using sector relevant indices adjusted for local factors where considered appropriate by the valuer. We have reviewed these percentage increases and concluded them to be reasonable.</p>	<p style="text-align: center;">↓</p>  <p style="text-align: center;">< lower higher ></p>

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3 Pension liability assumptions	<p>The pension liability comprises the Council's share of the market value of assets held in the Essex Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation. Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We agreed the disclosures to the information provided by the pension fund actuary.</p> <p>We requested assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</p> <p>We checked whether any significant changes in membership data were communicated to the actuary.</p> <p>We reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p>	<p>We did not identify any issues regarding the accuracy of the disclosures in the financial statements or the accuracy and completeness of data provided by the fund to the actuary.</p> <p>Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted on the following page.</p> <p>During the course of the audit, Essex County Council notified the Council of a material misstatement in respect of the pension fund liability data provided by the Essex pension fund actuary. This has led to an increase in the Council pension liability of £8.554 million, and an increase in the Group pension liability of £9.393 million. The Council have amended for this in the final financial statements.</p>

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES					
Pension liability assumptions					
ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT			IMPACT	
The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows	The actuary has used the following assumptions to value the future pension liability:			<p>< lower higher ></p>	
		Actual used	Actuary range		PwC assessment of actuary range to market expectations
	RPI increase	3.3%	3.3-3.35%		Bottom of expected range
	CPI increase	2.3%	2.3-2.35%		Bottom of expected range (derived from RPI above)
	Salary increase	3.8%	--		Bottom of expected range (derived from RPI above)
	Pension increase	2.3%	2.3-2.35%		Bottom of expected range (derived from RPI above)
	Discount rate curve	2.55%	2.5-2.6%		Middle of expected range
	Mortality - LGPS:				
	- Male current	24.4 years	23.5-26.6		Reasonable
	- Female current	27.0 years	26.5-28.3		Reasonable
- Male retired	22.2 years	21.4-24.4	Reasonable		
- Female retired	24.7 years	24.2-26.0	Reasonable		

21

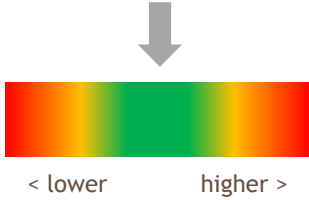
KEY AUDIT AND ACCOUNTING MATTERS

AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4 Revenue and expenditure recognition	<p>Under auditing Standards there is a presumption that income recognition presents a fraud risk. For local authorities, the risk can be identified as affecting the accuracy and existence of income and expenditure.</p> <p>We do not consider there to be a specific significant risk over any one income stream recorded in the Comprehensive Income & Expenditure Statement.</p> <p>Errors regarding the year-end income were identified in each of the previous two years. The net impact on the 2016/17 accounts of these errors was an estimated overstatement of income of £217k. As this is a recurring issue, and the procedures in respect of the year-end cut off have not changed, we consider this to be a risk of non-trivial misstatement, specifically over the cut-off of fees and charges and therefore completeness of income at year-end.</p>	<p>We tested a sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.</p> <p>We traced an increased sample of items picked from the pre and post year-end bank statements to supporting documentation to confirm the completeness of the amounts recorded.</p> <p>We reviewed the Council's policy to only accrue for items with a value of greater than £5,000 and made an assessment of whether this could lead to a material misstatement.</p>	<p>Our testing on revenue and expenditure recognition did not identify and issues. We concluded that the likelihood of the policy to only accrue for items with a value of greater than £5,000 resulting in a material misstatement is remote.</p>
5 Expenditure and Funding Analysis (EFA)	<p>During the prior year audit, we identified inconsistencies in the methodology for preparing the expenditure and funding analysis note between the disclosures made in the financial statements in respect of 2016/17 and those made in respect of 2015/16.</p>	<p>We reviewed the methodology for preparing this note and ensured it is consistent with the final agreed methodology from 2016/17.</p>	<p>We have no issues to report.</p>

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	Southend Care Ltd	The Council has a new subsidiary company in 2017/18 (Southend Care Ltd). As the transactions for this are material and have not historically been accounted for this presents a risk of material misstatement.	<p>We:</p> <p>Agreed the numbers consolidated into the financial statements to the draft financial statements for Southend Care Ltd</p> <ul style="list-style-type: none"> Confirmed that the processes and procedures for consolidation are in line with our expectations and those applied for South Essex Homes Limited. Performed a high level analytical review of the numbers included in the Southend Care Ltd accounts against our expectations 	Our testing in this area did not identify any issues.
7	Property, plant and equipment (PPE) existence	<p>Our initial review of the fixed asset register identified a small number of assets that the Council no longer holds. This was one transit van with a net book value of nil, a number of rooms removed as part of the past remodelling of two HRA sheltered accommodation schemes with a net book value of £1.1m and three garages with a net book value of £8,049.</p> <p>We have identified similar issues in previous years and the identification of these further assets indicates that a risk of material misstatement still exists.</p>	<p>We:</p> <ul style="list-style-type: none"> Reviewed the work that the Council has undertaken to identify further assets on the fixed asset register that the Council no longer holds Traced a sample of general fund, investment property and heritage assets to title deeds confirming the Council's ownership of the assets Traced a sample of Housing Revenue Account assets to the housing rent system, confirming that rental income is being received on the assets and thus that they exist Agreed a sample of investment property assets to the lease document held for these assets Physically verified a sample of general fund, heritage asset and investment property assets. 	<p>During our interim audit, of the total population of PPE assets (£778.536 million net book value), we identified the following issues:</p> <ul style="list-style-type: none"> One generically named asset with a net book value of £100,282 could not be identified. Further procedures to establish whether this is an isolated example concluded that the total impact of this error could not exist triviality. A number of rooms removed as part of the remodelling of two HRA sheltered accommodation schemes with a net book value of £1.1m were still held on the fixed asset register 307 garages with a total net book value of £635k, which have been either demolished or sold were still held on the fixed asset register. <p>All of the above assets were removed from the fixed asset register included within the financial statements prior to the submission of the financial statements for the final audit.</p>

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
SIGNIFICANT ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
Estimate of future write-off for uncollectable debt	<p>Overall we concluded that the impairment allowances for receivables are materially accurate and have mostly been based on historical write off rates. Based on a review of historical write off rates we concluded that the overall difference between the provision value and the value if all elements of the provision were calculated using historical recovery rates was trivial.</p> <p>Housing benefit overpayments</p> <p>The impairment allowance at 31 March 2018 is £3.425m, an increase of £0.181m from the prior year, against an overpayments balance of £6.585m. We compared this to the historical collection rates and estimate that this provision should be in the region of £3.360m.</p> <p>Council tax arrears</p> <p>The total impairment allowance for the Collection Fund at 31 March 2018 is £2.468m, an increase of £0.073m from the prior year, against total arrears of £4.975m. We compared this to the historical collection rates and estimate that this provision should be in the region of £2.462m.</p> <p>Business rates arrears</p> <p>The total impairment allowance for the Collection Fund at 31 March 2017 is £0.389m, an increase of £0.036m from the prior year, against total arrears of £1.806m. We compared this to the historical collection rates and estimate that this provision should be in the region of £0.390m.</p> <p>The total impairment allowance for other receivables where it was felt appropriate to make a provision at 31 March 2018 is £5.566m, a decrease of £0.157m from the prior year, against an outstanding balance of £12.144m. We compared this to the historical collection rates and estimate that this provision should be in the region of £5.598m.</p>	 <p>< lower higher ></p>

KEY AUDIT AND ACCOUNTING MATTERS

MATTERS REQUIRING ADDITIONAL CONSIDERATION

We comment below on other matters requiring additional consideration.

	AUDIT AREA	AUDIT FINDINGS
1	Fraud	Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We sought and received confirmation from those charged with governance that they were not aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 9 April 2018.
2	Internal audit	We reviewed the audit work of the Council’s internal audit function to assist our risk scoping at the planning stage. This review did not identify any additional audit risks.
3	Related parties	Whilst the Council is responsible for the completeness of the disclosure of related party transactions in the financial statements, we are also required to consider related party transactions in the context of fraud as they may present greater risk for management override or concealment or fraud. We did not identify any significant matters in connection with related parties.
4	Group matters	We reviewed the results of the component auditors’ reporting and confirmed that we are satisfied with the quality of their work. We confirmed that: <ul style="list-style-type: none"> • There were no limitations on the audit where information was restricted • We did not identify any fraud at a component level.

25

OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

MATTER	COMMENT
1	We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.
We have no issues to report.	2
2	We are required to report by exception if the Annual Governance Statement does not meet the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government Framework' (2016 Edition) published by CIPFA/SOLACE or is misleading or inconsistent with other information that is forthcoming from the audit.
We have no matters to report in relation to the Annual Governance Statement's compliance with relevant guidance.	

CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit Committee.

As the purpose of the audit is for us to express an opinion on the Council's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2017/18. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

We are not aware of any significant deficiencies in the Council's internal controls in 2017/18.

We identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix III.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
1	Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 14 June 2018. The Council met this deadline. We submitted the relevant section of the assurance statement to the National Audit Office (NAO) on 13 August 2018.

USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We reported our risk assessment, which included use of resources significant risks, in the 2017/18 Audit Plan issued on 9 April 2018. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks. We have not therefore identified any risks in respect of informed decision making or working with partners and other third parties, and no detailed work has been performed in these areas.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk ■ Normal risk ■ Other issue

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
<p>1 Sustainable resource deployment</p>	<p>Government continues to reduce funding for local government, and combined with additional pressures arising from demographic and other service delivery changes, this will have a significant impact on the financial resilience of the Council in the medium term.</p> <p>We have reviewed the latest Medium Term Financial Strategy (MTFS) which covers the four year period to 2021/22. The Council set a balanced budget for 2018/19 but this requires planned savings of £7.9m to be achieved. The MTFS forecasts a budget gap totalling £16.9m over the remaining three years which will need to be funded through either savings or additional revenue in order to maintain the current general fund position. This is a reduction from the MTFS published at the end of 2016/17 year which showed a budget gap of £22.9m. The two MTFS' cover different years and the reduction is due to the gap for 2021/22 in the current MTFS being lower than the budget gap for 2018/19 in the prior year MTFS. The budget gap is forecast to arise as follows:</p> <ul style="list-style-type: none"> • 2019/20: £7.5m (increased from £5.1m in the previous MTFS) • 2020/21: £4.9m (decreased from £7.5m in the previous MTFS) • 2021/22: £4.5m <p>Although the current budget gap is significant the Council is aware of the importance of finding sustainable savings or new revenue streams.</p> <p>We have reviewed the assumptions used in developing the MTFS and have found these to be reasonable. A prudent approach to expectations of future government funding has been adopted by the Council.</p>	<p>Whilst the Council has identified a significant funding gap, action is being taken to ensure the matter is addressed and the Council has a track record of achieving its financial plans.</p> <p>Our review of the latest forecast position and assessment of whether the Council is achieving the budget was found to be reasonable. We have no issues to report in relation to the plans in place for the future utilisation of reserves.</p> <p>Sufficient reserves and balances are available to support the Council's services in the medium term, should there be under performance against savings plans.</p> <p>Therefore, while there is a recognised funding gap in the MTFS, we are satisfied that the Council has sufficient reserves available and is undertaking appropriate arrangements to manage the budget gap in a way that will ensure it remains financially sustainable over the period of the MTFS.</p>

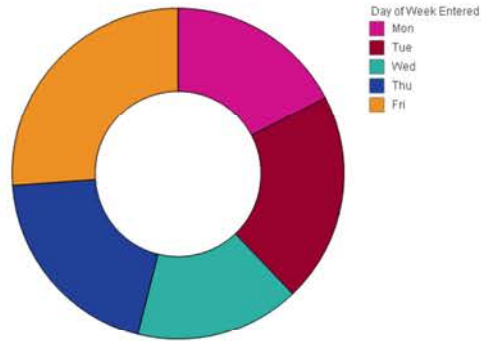
RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
	<p>The Council continues to maintain a level of balances and earmarked reserves in accordance with the plans set out in the MTFs. As at 31 March 2018, the General Fund balance was £11m which is within the Director of Finance and Resources recommended range of £10m to £12m. General Fund earmarked reserves were £61.6m compared to £64.0m at 31 March 2017 and £58.5m at 31 March 2016. The Council's overall useable reserves, which include the General Fund, HRA, Earmarked Reserves (including schools) and capital resources, have increased by £4.9m in 2017/18.</p>	

APPENDICES

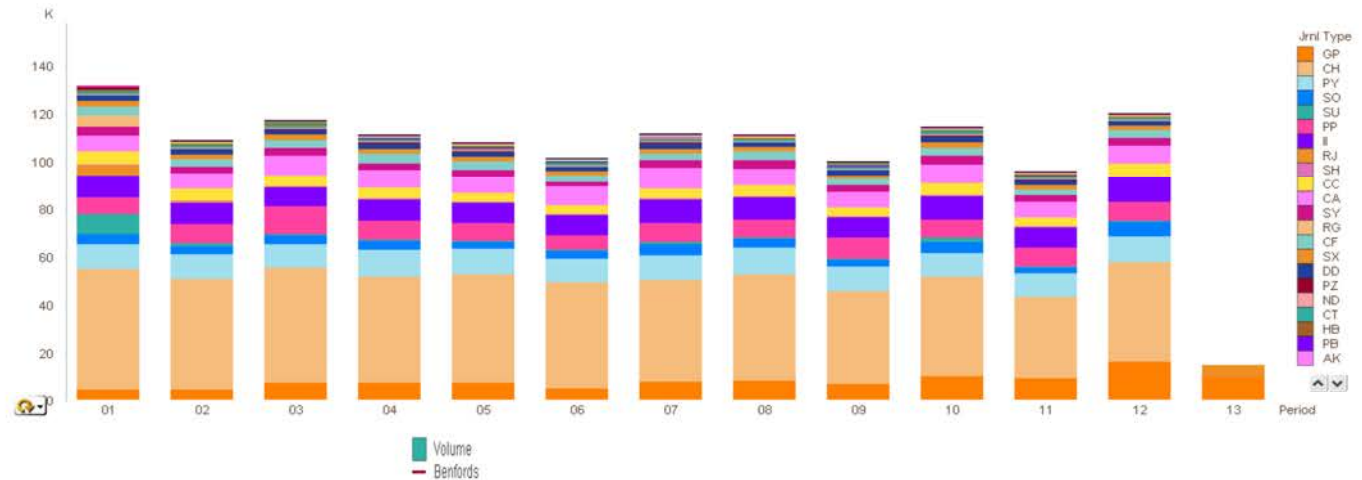
APPENDIX I: REVIEW OF JOURNALS

Southend-on-Sea Borough Council
1,339,296 journal lines entered

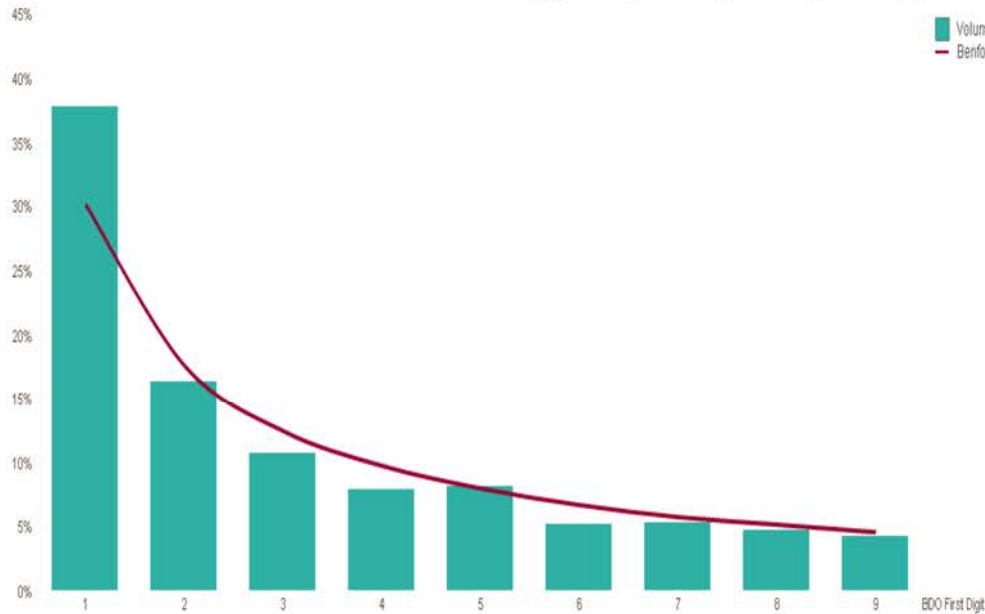
Journal Abs Value by Day of Week Entered



Journal Line Volume by Type



33



In respect of Southend-on-Sea Borough Council, we have shown a pictorial representation of the journals entered in the year.

The “journal value by day of the week entered” demonstrates that no journals have been posted at the weekend, which is line with our expectations.

The “Journal line volume by type” graphic shows the volume of each type of journal entered in the year. As expected, we can see that the highest volume of journals entered are type CH (Academy cash receipts), with 519,838 entries posted. The volume of different types of journals has been assessed with our knowledge of the entity and no unexplained anomalies have been found.

Lastly, the final graph shows Benford’s Law analysis. This is an observation of the frequency distribution of leading digits in sets of numerical data. Essentially the law states that in a set of numerical data the leading significant digit should be low i.e. you would expect most numbers in the population to begin with a 1 and the least to begin with a 9. The graph looks at whether the population of journals follows this expected pattern.

For Southend-on-Sea Borough Council, the numbers in the population were found to follow the expected trend.

APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES

One material misstatement in respect of the pension fund liability was notified by Essex County Council during the course of the audit. This has led to an increase in the Council pension liability of £8.554 million, and an increase in the Group pension liability of £9.393 million.

Management have also adjusted for non-material differences totalling £0.254 million identified by the auditors of South Essex Homes Limited.

There were no further audit differences identified by our audit work to date that were adjusted by management.

UNADJUSTED AUDIT DIFFERENCES

There were 3 unadjusted audit differences identified by our audit work, and if corrected, these would increase the deficit on the provision of services for the year by £0.588 million. You considered these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement however we also requested that you correct them even though not material.

APPENDIX II: AUDIT DIFFERENCES

CURRENT YEAR IMPACT OF PRIOR PERIOD UNADJUSTED DIFFERENCES

	£'000	INCOME AND EXPENDITURE / FUND ACCOUNT		STATEMENT OF FINANCIAL POSITION / NET ASSETS	
		DR	CR	DR	CR
		£'000	£'000	£'000	£'000
Net operating expenditure for the year before adjustments	9,441				
DR Cost of Services Income	290	290			
CR Reserves					290
(1) Impact of brought forward unadjusted misstatements - extrapolated element of understatement of adult social care income due to income from client contributions relating to prior period being recognised in 2017/18, as they were not accrued for in the prior year (projected).					
DR Housing Benefit Creditor				212	
CR Housing Benefit Expenditure	(212)		212		
(2) Being the overstatement of the year end housing benefit subsidy creditor balance due to a difference between the amount notified by the DWP in relation to 2016/17 and the amount recognised on the ledger.					
DR Housing Benefit Expenditure	480	480			
CR Housing Benefit Creditor					480
(3) Being the understatement of the year end housing benefit subsidy creditor balance due to a difference between the ledger and the subsidy claim form.					
TOTAL UNADJUSTED AUDIT DIFFERENCES	558				
Surplus / deficit on provision of services if adjustments accounted for	9,999				

APPENDIX II: AUDIT DIFFERENCES

UNADJUSTED DISCLOSURE MATTERS

Our testing identified a number of individually immaterial disclosure notes which were included in the financial statements.

These notes have been left in the financial statements as management believe the disclosure provides context for the reader of the accounts. These are:

- Accounting policies for provisions, finance lease and operating leases where the Council is the lessee
- Provisions
- The Council as Lessee: Finance Leases
- The Council as Lessee: Operating Leases
- The Council as Lessor: Finance Leases
- Heritage Assets Group Disclosure Note

Our testing also identified one immaterial prior period adjustment which was included in the financial statements.

This adjustment has been left in the financial statements as management believe the disclosure provides context for the reader of the accounts. This is in relation to an adjustment within the group accounts for various prior period misstatements identified within the Trust fund accounts

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control ■ Other observations

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					
37 Floor Areas of Revalued Assets	<p>It was noted that for 5 assets the floor areas applied by the valuer in their valuation calculations were either misstated or the exact figure they had used could not be evidenced. The movement in the valuations arising from correcting these floor areas was concluded to be trivial. The cause of the error was believed to be because the valuer placed reliance on the data used in the last valuation in 2012, and did not reassess the accuracy of this data.</p> <p>Although the errors identified are trivial, if similar errors are made in future years when larger populations of assets are revalued, this could lead to a material misstatement.</p>	It is recommended that all floor areas are verified to source document for every asset where a floor area is used in the valuation.	Agreed	Caroline Fozzard	March 2019
Property, Plant and Equipment (PPE) Existence	<p>Our testing over the existence of property, plant and equipment identified a small number of assets which had been demolished, disposed of or could not be identified.</p> <p>There is a risk that there is a cumulative material balance of assets on the fixed asset register which do not exist.</p>	It is recommended that the Council obtain positive confirmation regarding the existence of all assets on the fixed asset register on an annual basis.	The asset register will be reviewed and a method of testing the existence of each asset type will be ascertained. For the higher value assets, existence will be determined using that method on a sample basis. This should give assurance that there is not a material balance of assets which do not exist.	Caroline Fozzard	March 2019

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					
Pension Fund Disclosures	<p>A material adjustment was made to the pension fund as a result of a movement in the value of the fund from the estimate which was initially supplied. The Council has limited controls in place to identify potential differences in the value of the pension fund.</p> <p>The adjustment was notified to the Council by Essex County Council (ECC). If ECC had not notified the Council of this adjustment, the Council would not be aware of it, and there could potentially be a material error in the accounts.</p>	<p>It is recommended that the Council review the numbers provided in respect of the pension fund and make enquiries of ECC regarding any amounts which have moved significantly year-on-year, in order to satisfy themselves that the movements are not indicative of errors.</p>	Agreed	Ian Ambrose	May 2019

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

WE HAVE FOLLOWED UP ON THE RECOMMENDATIONS THAT WE RAISED IN THE PRIOR YEAR.

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPORT AND ACCOUNTS					
Consolidation of Schools Income	<p>The Council consolidates all income privately generated by the schools and the Southend Adult College into their CIES. We identified that some of the income given to the schools had been consolidated into the Council's accounts.</p> <p>We identified 3 schools/colleges for which the income had been consolidated incorrectly. The amounts involved were individually immaterial with the only non-trivial amount being in relation to Seabrook College. The Council has amended for all errors identified. There is however a risk that income could be materially under or overstated as a result of this error if it were to occur again in future years.</p>	<p>Provide the schools and colleges guidance on what should be consolidated so that the returns provided include all of the relevant information to include in the Council's accounts. This was the same recommendation raised in 2015/16.</p>	<p>Guidance was provided as agreed.</p>	Ian Ambrose	Cleared

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

WE HAVE FOLLOWED UP ON THE RECOMMENDATIONS THAT WE RAISED IN THE PRIOR YEAR.

41

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPORT AND ACCOUNTS					
Rolling Revaluation Policy	<p>It was identified that there were 18 assets which have not been revalued since 2011/12 and 12 assets which have never been revalued. As per the code, all assets should be revalued at least every 5 years, and therefore the failure to revalue these assets is out of line with code guidance.</p> <p>There is a risk that the value of these assets has changed significantly and is therefore materially misstated. The total net book value of the assets we are aware of is £1,657k. It is therefore considered unlikely that the revaluation of these assets would lead to a material adjustment.</p>	It is recommended that all assets where no revaluation has been performed in the last 5 years are revalued during 2017/18.	These assets were revalued during 2017/18	Caroline Fozzard	Cleared
Useful Economic Lives	<p>The UELs are set by the valuers for each individual asset when the assets are revalued. We are aware of at least 3 assets where the UEL recorded on the fixed asset register does not match the UEL set by the valuers.</p> <p>There is a risk that depreciation is materially misstated as a result of the incorrect UELs being applied. Our initial assessment however suggests that the impact of these errors is trivial.</p>	A review of all the UELs applied on the fixed asset register should be undertaken and it should be confirmed that all are consistent with the values provided by the valuers.	This review was undertaken as part of the 2017/18 Fixed Asset Register review.	Caroline Fozzard	Cleared

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

WE HAVE FOLLOWED UP ON THE RECOMMENDATIONS THAT WE RAISED IN THE PRIOR YEAR.

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPORT AND ACCOUNTS					
Journal Authorisation	A weakness in access controls over journals means that journals can be raised and authorised by the same person with no checks in place to prevent this. In addition, 3 users were identified who had access to post journals that should not have this access. It was noted that no journals had been posted by any of these 3 individuals.	The Finance Service should carry out a review of access rights to ensure that only appropriate individuals are able to post and approve journals.	A review of access rights to raise and approve manual journals was undertaken. An ICT helpdesk call was raised and actioned for any required changes.	Ian Ambrose, Caroline Fozzard	March 2018
	The Council's policy is that no journals are raised and authorised by the same person but there are no checks in place to ensure that this is followed. This deficiency means that it is possible for the accounts to be manipulated by raising fraudulent journals.	The IT department should be tasked with a review of the journal authorisation process.	The journal authorisation process has been reviewed. Work is on-going regarding access to the Excel tools for Agresso batch inputting and also the Agresso 'Data Import' folder.	Ian Ambrose, Caroline Fozzard, Mike Miller	October 2018
	This point was previously reported by internal audit.	Additionally, a periodic review of journals should be carried out to ensure that there are no journals that have been raised and authorised by the same person.	It is not possible to develop a report with this information as the workflow/ authorisation process sits outside of the main Agresso application.	Mike Miller	March 2018

APPENDIX III: RECOMMENDATIONS AND ACTION PLAN

WE HAVE FOLLOWED UP ON THE RECOMMENDATIONS THAT WE RAISED IN THE PRIOR YEAR.

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
ANNUAL REPORT AND ACCOUNTS					
Disclosure Notes	<p>There were a small number of notes included in the financial statements which were immaterial and did not need to be included.</p> <p>There is a risk that time will be inefficiently spent preparing notes which the Council is not required to prepare.</p>	The Council performs a critical review of the financial statements next year and does not prepare any notes which are considered immaterial.	A review was undertaken of the notes which BDO asked to be removed in 2016/17. The review looked at both materiality and contextual value to the user of the accounts in forming a judgement about continued inclusion in the Council's Statement of Accounts. Management's judgement was to continue to include these notes in 2017/18.	Ian Ambrose, Caroline Fozzard	May 2018

APPENDIX IV: MATERIALITY

MATERIALITY - COUNCIL

	FINAL	PLANNING
Materiality	7,400,000	7,700,000
Clearly trivial threshold	185,000	192,500

Planning materiality of £7,700,000 was based on 2% of gross expenditure, using the prior year signed accounts.

We revised our materiality in order to reflect the actual value of gross expenditure in the draft financial statements received for audit.

MATERIALITY - GROUP

	FINAL	PLANNING
Materiality	7,600,000	7,700,000
Clearly trivial threshold	190,000	192,500

Planning materiality of £7,700,000 was based on 2% of gross expenditure, using the prior year signed accounts.

We revised our materiality in order to reflect the actual value of gross expenditure in the draft financial statements received for audit.

APPENDIX V: INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

Details of services, other than audit, provided by us to the Council and the Group during the period and up to the date of this report were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan. Project manager Andrew Barnes will be joining the Council with effect from 24 July 2018. In order to safeguard our independence, Andrew has had no involvement in the audit from the point this became known to us in April 2018. Work completed prior to this, where Andrew was part of the review process, has also been subject to review by the Engagement Lead, Lisa Clampin.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

45 We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council and the Group.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

APPENDIX VI: FEES SCHEDULE

	2017/18 FINAL PROPOSED £	2017/18 PLANNED £	2016/17 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	142,816	142,816	142,816	N/A
Fee for reporting on the housing benefits subsidy claim	21,284	21,284	21,284	N/A
TOTAL AUDIT AND CERTIFICATION FEES	164,100	164,100	164,100	
Fees for reporting on other government grants:	14,000	14,000	10,500	N/A
- Pooling of housing capital receipts return	3,500	3,500	2,500	N/A
- Teachers' pension return	7,000	7,000	8,000	N/A
- Other	3,500	3,500	-	2017/18 fee relates to Homes and Communities Agency Information Management System compliance assurance fee
Fees for other non-audit services	-	-	1,200	2016/17 fee relates to Audit Committee knowledge sharing session
NON-AUDIT ASSURANCE SERVICES	14,000	14,000	11,700	
TOTAL ASSURANCE SERVICES	178,100	178,100	175,800	

APPENDIX VII: DRAFT LETTER OF REPRESENTATION

TO BE TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP
16 The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ

[XX] July 2018

Dear Sirs

Financial statements of Southend-on-Sea Borough Council and the Group for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Council's financial statements and the Group financial statements for the year ended 31 March 2018 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The director of Finance and Resources has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2018 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

APPENDIX VII: DRAFT LETTER OF REPRESENTATION

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the fair value measurements and significant assumptions, in relation to the following, are reasonable and that there are no circumstances of which we are aware that would have a material impact on the values reported.

- current value of property, plant and equipment using the following indexation percentages:
 - 5.19% - Council dwellings
 - 7.64% - Function rooms, banqueting rooms, meeting rooms etc.
 - 8.27% - Clubs, youth clubs, student unions etc.
 - 8.30% - Leisure centres - wet
 - 8.45% - Museums
 - 8.50% - Crematoria
 - 9.06% - Libraries
 - 9.11% - Leisure centres - dry

APPENDIX VII: DRAFT LETTER OF REPRESENTATION

- 9.16% - Care homes
 - 9.35% - Purpose built factories / offices - mixed facilities
 - 9.77% - Theatres
 - 9.87% - Covered swimming pools
 - 10.14% - Gymnasias / sports halls
 - 10.21% - Public conveniences
 - 10.84% - Schools
- assumptions underpinning the reported pension liability (details reported in note 36 to the main financial statements)

APPENDIX VII: DRAFT LETTER OF REPRESENTATION

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and member has taken all the steps that they ought to have taken as a director or member to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

51

Joe Chesterton

Director of Finance & Resources

Section 151 Officer

[Date]

Cllr Meg Davidson

Chair of the Audit Committee

Signed on behalf of the Audit Committee

[Date]

APPENDIX VIII: AUDIT QUALITY

BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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Southend-on-Sea Borough Council

Agenda
Item No.

5

Report of the Chief Executive

to

Audit Committee

on

26th September 2018

Report prepared by: BDO External Auditor

BDO: Annual Audit Letter 2017/18

Cabinet Member - Councillor John Lamb

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To present the External Auditor's Annual Audit Letter for 2017/18 to the Audit Committee.

2. Recommendation

- 2.1 The Audit Committee approves the Annual Audit Letter for 2017/18.**

3. Background

- 3.1 This Annual Audit Letter summarises the key issues arising from the work BDO have carried out during the year as the Council's auditors, and highlights the key findings that should be considered by the Council.
- 3.2 It is intended to be a short document, aimed at the public, to inform them about the results of the audit. It should be posted onto the Council's website and will also be posted on the Public Sector Audit Appointments (PSAA) website.

4. Corporate Implications

- 4.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all corporate Aims and Priorities.

- 4.2 Financial Implications

The fee for the audit work is set by Public Sector Audit Appointments Limited and agreed with the Council before the start of the audit. The code audit fee for 2017/18 was £142,816. Issues arising during the course of the audit can impact on the audit fee payable.

- 4.3 Legal Implications

The Council is required to have an external audit of its activities that complies with the requirements of the National Audit Office (NAO)' Code of Audit Practice (the Code). By considering this report, the Committee can satisfy itself that this requirement is being discharged.

4.4 People and Property Implications

None

4.5 Consultation

The Annual Audit Letter for 2017/18 has been discussed and agreed with the Director of Finance and Resources.

4.6 Equalities Impact Assessment

None

4.7 Risk Assessment

Periodically considering whether the external auditor is delivering the agreed Annual Audit Plan helps mitigate the risk that the Council does not receive an external audit service that complies with the requirement of the NAO's Code of Audit Practice.

4.8 Value for Money

PSAA sets the fee formula for determining external audit fees for all external auditors.

4.9 Community Safety Implications and Environmental Impact

None

5. Background Papers

None

6. Attachment: BDO's Annual Audit Letter 2017/18

SOUTHEND-ON-SEA BOROUGH COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2018

31 August 2018

EXECUTIVE SUMMARY

PURPOSE OF THE LETTER

This annual audit letter summarises the key issues arising from the work that we have carried out at Southend-on-Sea Borough Council for the year ended 31 March 2018.

It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public.

RESPONSIBILITIES OF AUDITORS AND THE COUNCIL

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's (NAO's) Code of Audit Practice (the Code). Under the Code, we are required to report on:

- Our opinion on the Council's financial statements
- Whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP

AUDIT CONCLUSIONS

FINANCIAL STATEMENTS

We issued our unmodified opinion on the financial statements on 31 July 2018.

Our audit procedures did not identify any material misstatements.

The Council adjusted for non-material differences totalling £0.254 million identified by the auditors of South Essex Homes Limited.

Our audit identified three errors above our reporting threshold, that would increase the deficit for the year by £0.558 million. As these were not material, these were not corrected by management.

USE OF RESOURCES

We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 31 July 2018.

FINANCIAL STATEMENTS

OPINIONS

We issued our unmodified opinion on the Council's financial statements on 31 July 2018.

This means we consider:

- The financial statements give a true and fair view of the financial position and its income and expenditure for the year
- Have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2017/18.

SCOPE OF THE AUDIT

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

59 This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

The materiality for the Council's financial statements was set at £7.4 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 2 per cent) which we consider to be one of the principal considerations for the Council in assessing financial performance.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Management override of controls	<p>Under auditing standards, there is a presumed risk of management override of controls as management is in a unique position to manipulate accounting records to prepare fraudulent financial statements.</p> <p>We responded to this risk by testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We reviewed the accounting estimates for bias and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p> <p>We obtained an understanding of the business rationale for significant transactions that were outside the normal course of business for the Council or appeared to be unusual.</p>	<p>No issues were identified by our audit work from our review of journals and review of accounting estimates for management bias. We found no significant transactions that were outside the normal course of business or otherwise appear unusual.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of property, plant and equipment	<p>Due to the significant value of the Council's property assets, and the high degree of estimation uncertainty, there is a significant risk over the valuation of property, plant and equipment where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> • Reviewing the instructions provided to the valuer and the valuer's skills and expertise in order to determine if we can rely on the management expert. • Checking the basis of valuation for assets valued in year as appropriate. • Checking the accuracy and completeness of the source data used by the valuer. • Confirming that the valuation movements are consistent with the expectations provided by independent data about the property market. • Confirming that the assets not specifically valued in the year have been properly assessed to confirm that their reported valued remained materially correct. 	<p>The Council engaged an external valuer to value a sample of property assets at 1 April 2017.</p> <p>From our review of the instructions provided to the valuer and our assessment of the expertise of the valuer, we were satisfied that we could rely on the management expert.</p> <p>We confirmed that the basis of valuation for assets valued in year was appropriate based on the nature and use of the assets.</p> <p>Assumptions used and valuation movements were found to be reasonable.</p> <p>Our review confirmed that appropriate indexation adjustments had been applied to all assets not subject to revaluation in year.</p>

FINANCIAL STATEMENTS

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Valuation of pension liability	<p>There is a risk the membership data and cash flows provided to the actuary at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p> <p>This is a significant risk due to the higher estimation uncertainty arising from the range of assumptions available to value the pension liability.</p> <p>We responded to this risk by:</p> <ul style="list-style-type: none"> • Agreeing the information provided to the actuary. • Reviewing the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data. • Requesting assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary. • Checking whether any significant changes in membership data have been communicated to the actuary. 	<p>We did not identify any issues regarding the accuracy of the disclosures in the financial statements or the accuracy and completeness of data provided by the fund to the actuary.</p> <p>Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations concluded that, overall, they were reasonable.</p> <p>During the course of the audit, Essex County Council notified the Council of a material misstatement in respect of the pension fund liability data provided by the Essex pension fund actuary. This led to an increase in the Council's pension liability of £8.554 million, and an increase in the Group pension liability of £9.393 million. The Council amended this in the final financial statements.</p>

USE OF RESOURCES

CONCLUSION	We issued our unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 31 July 2018.
	This means we consider that the Council has proper arrangements to: <ul style="list-style-type: none">• Ensure it took properly informed decisions• Deploy resources to achieve planned and sustainable outcomes for taxpayers and local people.

SCOPE OF THE AUDIT

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.

- ∞ As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

OUR ASSESSMENT OF SIGNIFICANT RISKS

Our audit was scoped by our cumulative knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the annual governance statement, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and the direction of the efforts of the audit team.

USE OF RESOURCES

RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	CONCLUSION
Sustainable resource deployment	<p>Government continues to reduce funding for local government, and combined with additional pressures arising from demographic and other service delivery changes, this will have a significant impact on the financial resilience of the Council in the medium term.</p> <p>We reviewed the assumptions used in the MTFS and assessed the reasonableness of the cost pressures and future income levels which have been forecast.</p> <p>We also reviewed the current savings and the budgeted savings together with their plans to assess their reasonability.</p>	<p>We reviewed the latest Medium Term Financial Strategy (MTFS) which covered the four year period to 2021/22. The Council set a balanced budget for 2018/19 but this required planned savings of £7.9m to be achieved. The MTFS forecasts a budget gap totalling £16.9m over the remaining three years which will need to be funded through either savings or additional revenue in order to maintain the current general fund position. This is a reduction from the MTFS published at the end of 2016/17 year which showed a budget gap of £22.9m. The two MTFS' cover different years and the reduction is due to the gap for 2021/22 in the current MTFS being lower than the budget gap for 2018/19 in the prior year MTFS. The budget gap is forecast to arise as follows:</p> <ul style="list-style-type: none"> • 2019/20: £7.5m (increased from £5.1m in the previous MTFS) • 2020/21: £4.9m (decreased from £7.5m in the previous MTFS) • 2021/22: £4.5m <p>Whilst the Council has identified a significant funding gap, appropriate action is being taken to ensure the matter is addressed and the Council has a track record of achieving its financial plans. Sufficient reserves and balances are available to support the Council's services in the medium term, should there be under performance against savings plans.</p> <p>The assumptions used in developing the Council's MTFS are reasonable. We are satisfied that the Council has sufficient reserves available and is undertaking appropriate arrangements to manage the budget gap in a way that will ensure it remains financially sustainable over the period of the MTFS.</p>

APPENDIX

REPORTS ISSUED

We issued the following reports since our previous annual audit letter.

REPORT	DATE
Grant claims and certification (year ending 31/03/2017)	4 January 2018
Audit plan	9 April 2018
Audit completion report	19 July 2018

65

FEES

We have not had to amend our planned fees.

AUDIT AREA	FINAL FEES £	PLANNED FEES £
Audit - PSAA scale fee	142,816	142,816
Housing benefits subsidy certification fee	21,284	21,284
Total audit fees	164,100	164,100
Fees for non-audit services*	14,000	14,000
Total assurance services	178,100	178,100

*NON AUDIT SERVICES FEES ANALYSIS

	£
Teachers Pensions certification fee	7,000
Pooled capital receipts certification fee	3,500
Homes and Communities Agency Information Management System compliance assurance fee	3,500
Total	14,000

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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Southend-on-Sea Borough Council

Agenda
Item No.

6

Report of the Chief Executive

to

Audit Committee

on

26 September 2018

Report prepared by: David Kleinberg, Assistant Director for
Fraud & Investigations

Counter Fraud & Investigation Directorate: Quarterly Performance Report

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the progress made by the Counter Fraud & Investigation Directorate (CFID) in delivering the Counter Fraud Strategy and Work Programme for 2018/19.

2. Recommendation

- 2.1 The Audit Committee notes the performance of the Counter Fraud & Investigation Directorate over the last year.**

3. Investigations

- 3.1 For the year 2018/19 good progress has been made in responding to reports of suspected fraud, with:
- **84** reports of suspected fraud have been received in the year
 - **16** reports are currently under investigation
 - **15** reports have been closed with sanctions being delivered
 - **81** reports remain under intelligence review
 - **20** intelligence reports has been disseminated to service areas
- 3.2 The reports provided to the committee this year have been amended to include additional information to demonstrate the entire work of the service. This includes 'intelligence reports' and 'intelligence disseminated.'
- 3.3 Intelligence reports – are information received of suspected fraud but limited in being able to identify an offender or other supporting information. These reports are assessed and kept under constant review in order that any correlative or new information is matched up.

- 3.4 Intelligence disseminated – these reports are where CFID have provided information to service areas or other partners, about known or suspected criminality, in order to prevent crime and stop criminal attacks on the council and its supply chain. Recent examples have included Mandate Fraud – where a criminal mimics a ‘well known’ supplier and attempts to change the suppliers bank details at the council to receive money fraudulently.

4. Counter Fraud Work Plan

- 4.1 The work plan for the period 2018/19 is shown at **Appendix 1**. This work plan details the current projects of the CFID.
- 4.2 Some of these projects have already been implemented and progress will be updated to future audit committees. A section of the work plan, regarding questionnaires for bribery & corruption and money laundering has been carried over from the 2017/18 work plan.

5. Corporate Implications

5.1 Contribution to Council’s Aims and Priorities

- 5.1.1 Work undertaken to reduce fraud and enhance the Council’s anti-fraud and corruption culture contributes to the delivery of all its aims and priorities.

5.2 Financial Implications

- 5.2.1 Proactive fraud and corruption work acts as a deterrent against financial impropriety and might identify financial loss and loss of assets.
- 5.2.2 Any financial implications arising from identifying and managing the fraud risk will be considered through the normal financial management processes.
- 5.2.3 Proactively managing fraud risk can result in reduced costs to the Council by reducing exposure to potential loss and insurance claims.

5.3 Legal Implications

- 5.3.1 The Accounts and Audit Regulations 2015 Section 3 requires that:

‘The relevant authority must ensure that it has a sound system of internal control which:

- *facilitates the effective exercise of its functions and the achievement of its aims and objectives*
- *ensures that the financial and operational management of the authority is effective*
- *includes effective arrangements for the management of risk.’*

- 5.3.2 The work of the Directorate contributes to the delivery of this.

5.4 People Implications

- 5.4.1 Where fraud or corruption is proven the Council will:

- take the appropriate action which could include disciplinary proceedings, civil law and criminal prosecution

- seek to recover losses using criminal and civil law
- seek compensation and costs as appropriate.

5.5 Property Implications

5.5.1 Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as a result of criminal activity. This action will benefit the authority by means of returning social housing stock to those in need or recovering the assets of those who seek to profit from their criminal behaviour.

5.6 Consultation: None

5.7 Equalities Impact Assessment: None

5.8 Risk Assessment

5.8.1 Failure to operate a strong anti-fraud and corruption culture puts the Council at risk of increased financial loss from fraudulent or other criminal activity.

5.8.2 Although risk cannot be eliminated from its activities, implementing these strategies will enable the Council to manage this more effectively.

5.9 Value for Money

5.9.1 An effective counter fraud and investigation directorate should save the Council money by reducing the opportunities to perpetrate fraud, detecting it promptly and applying relevant sanctions where it is proven.

5.10 Community Safety Implications and Environmental Impact: None

6. Background Papers

- Southend-on-Sea Borough Council Anti-Fraud & Corruption Policy
- Southend-on-Sea Borough Council Anti-Money Laundering Policy

7. Appendices

- Appendix 1: Work Plan for 2018/19

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Appendix A - Counter Fraud & Investigation
Counter Fraud Work Plan

Risk area	Tasks	Planned for	Current status	Responsible CFID Officer	Completed Activity Date
Council-wide 71	Revised policies for Counter Fraud, Bribery & Corruption and; Counter-Money Laundering to be produced	January 2019	Draft policies have been distributed to the statutory officers, which take account of the enhanced strategies in place. The draft documents are now being distributed to the council's leadership group for comment. Any revisions will be considered and included where necessary and brought back to the Audit Committee for approval.	Daniel Helps	Ongoing, in-progress
Council-wide	Fraud risk matrix assessment to be delivered to all service areas	Oct – Dec 2018	Has been presented to Audit Committee, section 151 Officer and Deputy Chief Executives. Meetings have now be booked with Directors group for depts. Of People and Place. Once these have taken place meeting with team managers will take place to relay the risk matrix to each service area.	Daniel Helps	Ongoing, in-progress

Appendix A - Counter Fraud & Investigation
Counter Fraud Work Plan

Risk area	Tasks	Planned for	Current status	Responsible CFID Officer	Completed Activity Date
Council-wide	UK Bribery Act (UKBA) Compliance Review. A questionnaire will be distributed to all Managers to ensure UKBA compliance.	November 2018	Questionnaire now developed and being tested at Thurrock Council before being circulated across SBC.	Michael Dineen	Ongoing, in-progress
Council-wide	Counter Money Laundering (CML) Compliance Review. A questionnaire will be distributed to all staff to ensure CML compliance.	November 2018	Questionnaire now developed and being tested at Thurrock Council before being circulated across SBC.	Michael Dineen	Ongoing, in-progress
72 Proactive Fraud Drives	Conduct proactive activity to disrupt and detect fraud affecting the council.	Throughout 2018/19	Proactive work continues to be undertaken across the high-risk areas. Monthly meetings are taking place with housing to arrange pro-active operations	Michael Dineen	Ongoing, in-progress
Investigation Review	Review of insider threat investigations with Human Resources to reviews action and learning points	Throughout 2018/19	Meetings booked once an insider threat is identified. A monthly meeting also takes place between CFID and HR Single-Point-of-Contact.	Daniel Helps	Ongoing, in-progress

Appendix A - Counter Fraud & Investigation
Counter Fraud Work Plan

Risk area	Tasks	Planned for	Current status	Responsible CFID Officer	Completed Activity Date
Fraud Awareness Training	Training to be delivered to high risk areas – housing officers, housing allocations, temporary accommodation and right to buy	Ongoing to March 2019	Training now being booked with assistance from CFID business support team.	Michael Dineen / Nicola Spencer	Ongoing, in-progress

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Southend-on-Sea Borough Council

Agenda

Item No.

7

Report of the Chief Executive

to

Audit Committee

on

26th September 2018

Report prepared by: Andrew Barnes, Head of Internal Audit

Internal Audit Services, Quarterly Performance Report

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the progress made in delivering the Internal Audit Strategy for 2018/19.

2. Recommendations

- 2.1 **The Audit Committee notes the progress made in delivering the 2018/19 Internal Audit Strategy.**

3. Internal Audit Plan Status

- 3.1 **Appendix 1** sets out the current status of the audit work planned for the year as at 31 August 2018. This highlights where audits contained in the original plan considered by the Audit Committee in March 2018 have changed and why.
- 3.2 **Appendix 2** sets out the results of the work completed since the last progress report to the Audit Committee in July.

4. Performance Targets

- 4.1 As outlined in the Strategy presented to the March 2018 Audit Committee, the team will be reporting on a more limited set of indicators this year given the amount of work that is still being contracted out.
- 4.2 So as at 31 August 2018:
- the team has had three days of sickness absence since April 2018 (which impacts on productivity) and equates to 0.43 days per FTE
 - in terms of the jobs in the plan:
 - 25% of audits are completed
 - 13% of audits have reports being produced or discussed
 - 13% of audits are in progress
 - 7% of audits have terms of reference produced
 - 42% of audits are resourced and booked, but yet to be started.

4.3 A programme of stakeholder surveys has been produced and these will be completed throughout the remainder of the year as audits are completed. **Appendix 3** reflects the results of eight surveys covering 16 audits undertaken since April 2017. Overall the feedback obtained remains very positive. The key overall message is that stakeholders find the Council's Internal Audit service to be professional, approachable, flexible and of tangible benefit to their services as well as the Council as a whole.

4.4 **Appendix 4** reflects the progress in addressing the actions arising from the 2017/18 assessment of compliance with professional standards that concluded that the service 'generally conforms' with the Institute of Internal Auditors International Professional Practices Framework, which is the highest rating available from the external quality assessment.

5. Resourcing

5.1 Since the last report to the Audit Committee in July 2018:

- a trainee auditor has resigned and left the team in August
- a trainee auditor on a three month secondment to the team has agreed to become a permanent member of the team

5.2 That leaves the combined team with six vacancies out of ten posts. The salaries of the vacant posts are currently being used to fund audit resource brought in from external suppliers to deliver the audit plan. The intention is to fill some of the posts with graduates or school leavers, who will be put through a relevant training programme.

6. Corporate Implications

6.1 Contribution to Council's Aims and Priorities

Audit work contributes to the delivery of all corporate Aims and Priorities.

6.2 Financial Implications

The Audit Plan will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

6.3 Legal Implications

The UK Public Sector Internal Audit Standards require the Audit Committee to approve (but not direct) the annual Internal Audit Plan and then receive regular updates on its delivery. This report contributes to discharging this duty.

6.4 People and Property Implications

People and property issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

6.5 Consultation

The audit risk assessment and the Audit Plan are periodically discussed with the Chief Executive, Deputy Chief Executives and Directors before being reported to Corporate Management Team and the Audit Committee.

All terms of reference and draft reports are discussed with the relevant Deputy Chief Executives and Directors before being finalised.

6.6 Equalities Impact Assessment

The relevance of equality and diversity is considered during the initial planning stage of the each audit before the Terms of Reference are agreed.

6.7 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact of the Council's ability to deliver its corporate aims and priorities.

The main risks the team continues to manage are the:

- potential loss of in-house staff and the ability of the service to replace this resource in a timely manner
- lack of management capacity to support and process work in a timely manner and provide strategic leadership to the team
- possibility that the external supplier won't deliver contracted in work within the required deadlines to the expected quality standards
- need to maintain relationships with clients / partners until the service has been rebuilt.

6.8 Value for Money

Opportunities to improve value for money in the delivery of services are identified during some reviews and recommendations made as appropriate.

Internal Audit also considers whether it provides a value for money service periodically.

6.9 Community Safety Implications and Environmental Impact

These issues are only considered if relevant to a specific audit review.

7. Background Papers

- The Accounts and Audit Regulations 2015
- UK Public Sector Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

8. Appendices

- Appendix 1 Internal Audit Plan 2018/19
- Appendix 2 Assurance summary: other audits and grants
- Appendix 3 Stakeholder survey results
- Appendix 4 Action plan arising from assessment of the service by the Institute of Internal Auditors

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Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 14 th September 2018
Managing the Business			
All Aims			
CE (JR)	<p>Information Governance, General Data Protection Regulation</p> <p>To assess the robustness of the Council's arrangements for complying with the new General Data Protection Regulations to ensure this has been done in line with recognised good practice guidance / statutory requirements.</p>	No	Planned for October to December 2018.
CE (JC)	<p>Shareholder Board</p> <p>To assess the robustness of the new governance arrangements established to oversee the financial and operational performance of the Council's wholly owned companies that are being used as an alternative method to deliver outcomes for residents.</p>	No	Planned for December 2018 to March 2019.
CE	<p>Southend 2050</p> <p>To assess the risks regarding the delivery of this and then agree the focus of any work with management.</p>	No	To be assessed October 2018 to January 2019 when Vision and Corporate Plan Outcomes known.
Managing Service Delivery Risks			
Safe			
PE	<p>Management Response to Quality Assurance Audits (2017/18)</p> <p>To assess whether senior management's revised arrangements for ensuring prompt action is taken to address the improvements required where a children's social care file is assessed as 'inadequate' or 'inadequate critical', are operating effectively to minimise the risk to Children.</p>	No	Current status report issued to Management July 2018.

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 14 th September 2018
PE (JO'L)	<p>Assessment and Intervention of Families <i>(Interim Management Review)</i></p> <p>To assess whether there are suitable processes in place to make sure families are assessed promptly and that appropriate action is taken to keep children safe, where necessary.</p>	No	Deleted. Change of approach being developed within Children's Services.
PE (BM)	<p>Children Centres Contract Management</p> <p>To assess whether the contract is being effectively managed to ensure the planned outcomes for children and families are being delivered in compliance with the specified performance and/or quality standards, at the correct price.</p>	No	Planned for October to December 2018.
PL/PE	<p>Safeguarding Arrangements – service to be determined</p> <p>To assess whether appropriate arrangements are in place to identify and effectively manage safeguarding risks when delivering the service.</p>	No	Planned for October to December 2018.
PE / PL (SH)	<p>Social Care IT Case Management System, Project Implementation "Go Live" Readiness Assessment for Adults (Liquid Logic)</p> <p>To independently challenge and report on the Project Team's assessment against the success criteria within the "Go Live" Readiness framework, prior to any decision being made by the Project Board to 'Go Live'.</p>	No	Completed. Reported to July 2018 Audit Committee.
PE (SH)	<p>Social Care, Hospital Discharge Process</p> <p>To assess whether there is a robust process in place to ensure people are discharged from hospital, to an appropriate setting, when they are ready, reducing the risk of re-admission.</p>	No	Work in progress.
PE (JO'L)	<p>Social Care Payments to Individuals and Providers (Children's)</p> <p>To assess whether the control framework in the new Liquidlogic case management system and the ContrOCC finance module are robust enough to ensure that accurate and timely social care payments are made.</p>	Yes	Completed. Reported to April 2018 Audit Committee.

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 14 th September 2018
PE (SH)	<p>Vibrance Contract Management</p> <p>To assess whether the contract is being effectively managed to ensure the planned services to support people to manage their direct payments is delivered, other specified performance and / or quality standards are met and the correct fee is paid to the contractor.</p>	Yes	Planned for October to December 2018.
PE (BM)	<p>Virtual School</p> <p>To assess whether there are robust processes in place for the Virtual School to ensure that "Looked After Children" achieve the outcomes in their Personal Education Plans.</p>	No	Planned for October to December 2018.
Clean			
PL (CR)	<p>Recycling, Waste and Street Cleansing Services Contract Management (2017/18)</p> <p>To assess whether the contract is being effectively managed to ensure the planned outcomes and/or benefits for residents are delivered in compliance with the specified performance and quality standards, at the correct price.</p>	Yes	<p>Planned for December 2018 to March 2019.</p> <p>Terms of reference drawn up.</p>
Healthy			
PE (JL)	<p>Commissioned Services Contract Letting</p> <p>To assess whether the needs and outcomes required were properly assessed, appropriately translated into the contract and contract procedure rules were properly applied.</p>	Yes	Planned for October to December 2018
PE (JL)	<p>Commissioned Services Contract Management</p> <p>To assess whether the contract is being effectively managed to ensure the planned outcomes and/or benefits for residents are delivered in compliance with the specified performance and quality standards, at the correct price.</p>	Yes	Planned for October to December 2018.

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 14 th September 2018
Prosperous			
PL	<p>Highways Contract Management (2017/18)</p> <p>To assess whether the highways block of contracts are being effectively managed.</p>	Yes	Planned for October to December 2018.
PL	<p>Car Park Management Contract (Lot 1) Contract Management (2017/18)</p> <p>To assess whether there are robust arrangements in place to ensure that the car park compliance (Lot 1) contract is delivering the planned outcomes and / or benefits in compliance with the specified performance and quality standards, at the correct cost / price.</p>	Yes	Draft report is with the Audit Manager for review.
PL	<p>Car Park Management Contract (Lot 2) Contract Management (2017/18)</p> <p>To assess whether the Car Park Management arrangements (cash collection) as part of the Parking Management contract are being effectively managed.</p>	Yes	Draft report is with the Audit Manager for review.
PL (EC)	<p>Better Queensway</p> <p>To assess whether the needs and outcomes required are properly assessed, appropriately translated into the contract and Contract Procedure Rules are properly applied.</p>	Yes	Draft Interim Management report being discussed with client.
PL (PG)	<p>South Essex Active Travel Project</p> <p>To assess whether there are robust accounting, monitoring and transparency arrangements in place to ensure the outcomes set out in the original bid for funding will be met.</p>	Yes	Draft report being prepared.
<i>Implementing Action Plans</i>			
PL (EC)	<ul style="list-style-type: none"> • Airport Business Park <p>To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.</p>	Yes	Included in 2018/19 Audit Plan in error. Work undertaken during 2017/18 and reported to Audit Committee January 2018.
PL (EC)	<ul style="list-style-type: none"> • Better Queensway <p>To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.</p>	Yes	Planned for October to December 2018.

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 14 th September 2018
Excellent			
PL (CR)	Building Control To assess whether there are suitable processes in place to ensure a consistent, effective and commercial building control service is delivered in accordance with statutory building regulations.	Yes	Work in Progress.
PL (NC)	Cyber Security To assess whether there are suitable processes in place to ensure a consistent, effective and commercial building control service is delivered in accordance with statutory building regulations.	Yes	Risks and scope to be determined after the results of the Local Government Association's 'stocktake' of resilience arrangements against cyber-attacks which will cover every council in England. Results due during the autumn of 2018.
PE (JO'L)	Data Quality of Children's Service's Key Performance Indicators To assess whether there are adequate and effective arrangements in place to produce accurate, complete and timely performance indicators for senior management.	No	Work in Progress.
PL (NC)	IT Enterprise Change Management To assess the adequacy and effectiveness of the Council's formal processes that ensure any changes to the IT environment (e.g. through applications or infrastructure) are introduced in a controlled and coordinated manner to minimise the risk of disruption to Council services.	No	Completed. Reported to Audit Committee July 2018.
<i>Implementing Action Plans</i>			
PL (NC)	<ul style="list-style-type: none"> • Agresso System Access Control To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	Yes	Work in Progress.
CE (JC)	<ul style="list-style-type: none"> • Procurement Cards (2017/18) To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	Yes	Report issued September 2018.

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 14 th September 2018
Key Financial Systems			
All Aims			
CE	<p>Payroll, Self-Serve Mode (2017/18)</p> <p>To assess whether the new arrangements for processing and approving expense, mileage and overtime allowance claims are working effectively.</p>	Yes	Draft report is with the Audit Manager for review.
CE (JC)	<p>Financial systems work to support the production of the Council's Financial Statements</p> <p>To confirm that selected key objectives and associated controls within financial systems:</p> <ul style="list-style-type: none"> • are designed to prevent or detect material financial errors • have been in place during 2018/19 and therefore, can be relied when producing the Council's Statement of Accounts. 	Yes	Deleted as the new external auditor has confirmed that they do not plan to utilise this this work.
CE (JR)	<p>Payroll</p> <p>To assess the robustness of arrangements which ensure staff are paid the right amount at the right time in line with Council policies and legislative requirements.</p>	Yes	Planned for October to December 2018.
Grant Claims			
PE	<p>Disabled Facilities Grant</p> <p>To certify, in all significant respects, that the conditions attached to the grant have been complied with.</p>	Yes	Work Completed pending final sign off by Head of Internal Audit.
PL	<p>Highways Maintenance Challenge Fund</p> <p>To certify, in all significant respects, that the conditions attached to the grant have been complied with.</p>	Yes	Work Completed pending final sign off by Head of Internal Audit.
PL	<p>Local Transport Plan Block Funding</p> <p>To certify, in all significant respects, that the conditions attached to the grant have been complied with.</p>	Yes	Work Completed pending final sign off by Head of Internal Audit.

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 14 th September 2018
PL	<p>Pothole Action Fund</p> <p>To certify, in all significant respects, that the conditions attached to the grant have been complied with.</p>	Yes	Work Completed pending final sign off by Head of Internal Audit.
PE	<p>Troubled Families Intervention</p> <p>To challenge Troubled Families Payment By Result (PBR) Grant returns to ensure they are in line with the Department for Communities and Local Government requirements.</p>	Yes	Report on the April to August 2018 submissions.
Advice and Support			
All Aims			
	<p>Good Governance Group</p> <p>To attend and provide independent support and challenge to the work of the Group.</p>		The Head of Internal Audit attends.
JR/JC	<p>Corporate Establishment</p> <p>To provide support and challenge to the cross departmental working group established to identify how to create and maintain a complete and accurate personnel establishment list within Agresso.</p>	Yes	Approach to the operation of the cross departmental working group being discussed by senior managers.
Prosperous			
PL (EC)	<p>Airport Business Park</p> <p>To provide, as required, on-going support and challenge to ensure the council's arrangements for use of the Local Growth Fund (LGF), can demonstrate compliance with grant conditions detailed in the Service Level Agreement (SLA) with Essex County Council¹. Grant conditions primarily focus on ensuring:</p> <ul style="list-style-type: none"> • expenditure is spent in accordance with all legal requirements • compliance with government reporting requirements 	Yes	Internal Audit continues to challenge and support officers to ensure grant conditions are met.

¹ The LGF is awarded by the South East Local Enterprise Partnership (SE LEP). Essex County Council is the Accountable Body to government for the SELEP's Growth Deal with government.

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 14 th September 2018
Excellent			
PE (BM)	<p>Early Years Funding – Nursery School Settings</p> <p>To provide ongoing support and challenge of the arrangements currently in place and being developed within the funded childcare provision to ensure:</p> <ul style="list-style-type: none"> • the accuracy of the funding being approved by the Group Manager, Early Years • providers are fulfilling their duties in line with agreements. 	Yes	<p>Planned for October to December 2018.</p>
PE (SH)	<p>Adults Pre - payment cards</p> <p>To assess whether effective arrangements are being developed to manage the issue of as well as approve and monitor expenditure on, pre-payment cards given to clients:</p> <ul style="list-style-type: none"> • in receipt of direct payments • where the Council acts as the official receiver for Court Protection purposes. 	Yes	<p>Planned for October to December 2018.</p> <p>Terms of Reference agreed.</p>
PL (SD)	<p>Safety Of Gas Boilers</p> <p>To assess whether robust processes have and are being followed by the Council when examining issues raised by a complainant regarding potential non-compliance with Gas Safety (Installation and Use) Regulations.</p>	Yes	<p>Feedback provided.</p> <p>Draft Report being discussed with client.</p>
Safe			
PE (JO'L)	<p>Early Help Maturity Model</p> <p>To support the Council in bringing partner organisations together to work collaboratively in achieving the agreed outcomes for families and young people.</p>	No	<p>Work agreed with client for January to March 2019.</p>
PE (SH)	<p>Social Care Payments to Individuals and Providers (Adult's)</p> <p>To provide support and challenge whilst the control framework is being designed into the new Liquidlogic case management system and the ContrOCC finance module, to help ensure accurate and timely social care payments are made to individuals and providers.</p>	Yes	<p>Planned for January to March 2019.</p>

Appendix 1: Internal Audit Plan 2018/19

Dept & (Lead)	Service Activity and focus of the audit	Fraud risk	Status at 14 th September 2018
	Healthy		
PE (SH)	<p>Aids and Adaptations Works Processes</p> <p>To provide support and challenge to the Aids and Adaptations Team in developing a process for assessing the works exceeding the £30K Disabled Facilities Grant limit provided by the Ministry of Housing and Local Government.</p> <p>(see also Grant Claims above)</p>	Yes	<p>Addition to Audit Plan August 2018.</p> <p>Work in progress.</p>
Managing Service Delivery			
<p>Delivering the internal audit service involves:</p> <ul style="list-style-type: none"> • audit planning and resourcing • managing Audit Plan delivery which includes overseeing contractor work • reporting to Corporate Management Team and Audit Committee. 			
<p>Implementing the outstanding actions arising from the External Quality Assessment undertaken by the Institute of Internal Auditors issued October 2017.</p>			

Appendix 1: Internal Audit Plan 2018/19

Risk Watch List	
All	Ethical Governance
CE	Business Continuity Revisited
CE	Debt Management
CE	Emergency Planning Revisited
CE	Rechargeable Works
PE	Empty Homes Fund
PE	Family Mosaic Contract Management
PE	Financial Monitoring of Direct Payments Revisited
PE	Housing Allocations Revisited
PE	Quality Assurance in Adult Services
PE	Quality Assurance in Early Help and Family Support
PE	Residential Care Placements
PE	S75 Equipment Services Revisited
PL	Departmental Project Assurance Arrangements Revisited
PL	Development Control, Planning Application Consultation Process
PL	Environmental Health
PL	IT Disaster Recovery
PL	Licensing Revisited
PL	Parking Management
PL	Smart City Governance Arrangements
PL	The Forum Revisited

These are other potential audits that may be considered for inclusion in the Audit Plan during the year should resources permit.

Appendix 1: Internal Audit Plan 2018/19

Audit Activities	Resource allocation
Managing the Business	7%
Managing Service Delivery Risks	57%
Key Financial Systems	5%
Grant Claims	6%
Advice and Support	8%
Contingency	5%
Managing Delivery of the Audit Plan	12%
Total	100%
Total Council Audit Plan Days	
	607

The days required to revisit and retest action plans from previous reports are included under each heading.

The Total Council Audit Plan Days reflects the higher cost of buying in external contractors to cover internal vacancies.

Analysis Over Departments		
All	Cross Cutting	4%
CE	Chief Executive	13%
PE	People	39%
PL	Place	27%
All	Contingency	5%
All	Managing Delivery of the Audit Plan	12%
	Total	100%

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Appendix 2: Audits Revisited

Purpose of these audits

To assess whether the actions agreed in the original audit report have been implemented and are now effectively embedded into the day-to-day operation of the service.

Procurement Cards (P-Cards) Revisited



Original Objective

To assess whether the arrangements in place to monitor and challenge expenditure on Southend on Sea Borough Council (the Council) Procurement Cards (P-Cards) are sufficient to prohibit inappropriate use or inconsistent practices.

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented
4	3	2	0

Summary/Audit Committee Summary

There is now a process in place to identify situations where P-Cards are not coded (against the correct type of expenditure) or are authorised inappropriately. This is undertaken by the P2P, Reporting and Compliance Manager. Spot checks have been implemented to monitor whether a valid receipt has been attached to a claim and whether the expenditure is in line with the policy. A non-compliance policy is live on the intranet outlining the process should a cardholder or approver not follow the policy and user instructions.

Further reports such as an 'Exceptions' report are run by the P2P, Reporting and Compliance Manager. This helps track spending patterns and identifies anything deemed to be unusual, although there have not been any significant issues identified to date.

Monthly reconciliations are taking place between the information on the Barclaycard Spend Management System¹ (BSM) and Agresso. They are currently completed by the Finance Manager and authorised by the Group Manager, Financial Planning & Control. However, there were some timeliness issues throughout the year in terms of completion and approval. Issues of timely completion arose due to a staffing change in who completed the reconciliation.

¹ This is the P-Card system. It monitors all transactions involving P-Cards.

Appendix 2: Audits Revisited

To further strengthen the reconciliations, the service should:

- check and approve reconciliations in a more timely manner
- introduce electronic signatures to ensure the appropriate person is signing to approve.

The BSM added an extra module in 2017 that forces receipts to be attached to P-Card transactions. Whilst it cannot control the upload of an appropriate receipt, it does force users to attach a file. This can then be properly checked to ensure it is consistent with the expenditure and the policy. Some transactions were identified during the spot checks where the Line Manager should have challenged the cardholder prior to submission and approval, due to non-compliant supporting documentation.

The P2P, Reporting and Compliance Manager and the Finance Manager (Technical & Compliance) have completed monthly spot checks since Q2 2017/18 to confirm that:

- transactions are completed in line with the P-Card policy
- receipts are attached and appropriate (eg.- VAT receipt if required)
- coding on the BSM system is correct
- the VAT is coded and accurately calculated
- expenditure is in line with HR policies if applicable
- expenditure on gate kept² codes is accurate if applicable.

These spot checks select a random 20% sample of transactions each month and assess compliance with the above. Any issues with the spot checks are escalated in line with the non-compliance policy.

The non-compliance policy states that escalation to the next stage of the policy requires two consecutive months to be non-compliant. The majority of transactions checked in the sample did not show non-compliance over two consecutive months, although evidence was provided showing escalation of issues identified that were included in reports sent to the Payments and Requisitions Board. More rigorous checking would enhance the quality of all of these checks as instances were found during audit testing whereby there was non-compliance with VAT regulations and non-compliance with HR policies.

Procedure notes in the form of the policy and user card instructions have been developed to ensure users and approvers of P-Cards understand their roles and responsibilities in this process and the implications of non-compliance. They are available on the intranet although evidence of an official re-issue cannot be located.

Additional Findings not affecting the assurance of this audit

Whilst undertaking testing in relation to some of the recommendations in this audit, transactions were identified that were in clear breach of the P-Card Policy. These transactions related to expenditure on a staff recognition event, incomplete supporting evidence and evidence of limits that were being shared to pay for expenditure that breached individual cardholders limits. The approver of the staff recognition event has been informed of their responsibilities and the implications should a breach occur again. These transactions were not randomly selected as part of the implemented spot checks and therefore there is no impact on the assurance level given to those recommendations.

² Gate kept codes are those codes on the system that are controlled by a certain department. The main example of this is for ICT expenditure. ICT would be the gatekeepers for those codes, so cardholders should not be spending on items that would go through the gatekeepers unless they have prior approval.

Appendix 2: Other Audits and Grant Claims

Objective

To confirm that grant allocations for 2017/18 received from the Department of Transport and the Ministry of Housing, Communities and Local Government have been spent in accordance with the relevant scheme's terms and conditions.

Disabled Facilities Capital Grant Determination (DFG)

Purpose of funding

To support those in non-council properties with required adaptations to their homes based on their medical needs. Types of works undertaken include installations of:

- level access showers
- ramped access to properties
- stair lifts or through-floor lifts.

Conclusion

It was confirmed that spend was compliant in that:

- it fell within the definition of "capital" for accounting purposes
- grant monies had been transferred into the local Better Care Fund pooled budget, under Section 75 of the NHS Act 2006.

In addition, work was undertaken to verify that all cases were supported by:

- an assessment of need and recommendation of adaptation works required, undertaken by an Occupational Therapist
- suitable means testing to ensure eligibility to the DFG scheme, where required
- a signed agreement from surveyors and clients that works had been completed as per the plans, and to a suitable standard.

Opinion: Unqualified

Appendix 2: Other Audits and Grant Claims

Highways Maintenance Challenge Fund

Purpose of funding

Funding was provided to assist with:

- the borough wide LED street lighting upgrade
- highway flood reduction and resilience.

Conclusion

It was confirmed that spend was compliant in that:

- it fell within the definition of "capital" for accounting purposes
- work undertaken related to the replacement of streetlights in the borough
- work undertaken related to highway flood reduction and resilience in the borough.

Opinion: Unqualified

Local Transport Capital Block Fund

Purpose of funding

To assist in delivering transport improvement schemes, which can include:

- road markings and re-surfacing
- upgrades to traffic signal junctions, zebra and puffin crossings
- underground utility detection, topographical, CCTV and HDS surveys in preparation for works contained in the 2017/18 programme
- upgrades to electronic bus information screens
- pothole repairs.

Conclusion

It was confirmed that spend was compliant in that it fell within the definition of "capital" for accounting purposes.

Some issues were identified that did not impact on the ability to confirm the grant expenditure, but required attention from the service area.

Evidence that works had been completed, such as records of site visits or photos showing works done, were not always available. Work was undertaken by engineers to re-visit works and verify that they had been completed in line with the invoices paid. Work is ongoing to move all record keeping onto Symology¹.

Opinion: Unqualified

¹ Symology is the Council's Highways Asset Management system

Appendix 2: Other Audits and Grant Claims

Troubled Families Programme, Payments by Results Scheme Grant

Objective

To assess compliance with the terms and conditions of the Ministry of Housing, Communities and Local Government's (MHCLG) Financial Framework for making Payment by Result (PBR) claims under the Expanded Troubled Families Programme (Phase 2).

Background

The Financial Framework requires that Internal Audit verifies a 10% representative sample of PBR claims before they are made to ensure there is supporting evidence to confirm families:

- met the required criteria to be considered for entry to the expanded Troubled Families Programme
- have achieved either continuous employment or significant and sustained progress as defined by the Council's agreed Outcomes Plan.

Larger sample sizes may be required for smaller claims in order to ensure the audit is meaningful.

Conclusion

Between April and August 2018, 79 PBR claims were presented for audit prior to submission to the MHCLG.

Claims continue to be reviewed at 'Outcome Surgeries' established by the Early Help and Family Support team. These ensure the criteria of the Council's Troubled Families Outcome Plan have been met and can be evidenced. Additionally, the Team Manager reviews a minimum of 10% of cases to confirm appropriate evidence for the claim has been provided.

Of the 79 cases, the Team Manager reviewed 19 cases. 11 claims were randomly selected by Internal Audit for review, which included four cases checked by the Team Manager. For all cases, suitable evidence was available to support:

- entry into the programme
- a claim for either significant and sustained progress, or continuous / subsequent employment.

The audit work undertaken demonstrates that both the 'Outcome Surgeries' and the Team Manager's quality assurance checks are working effectively to ensure sufficient evidence is available to support required troubled family outcomes and the PBR claims made.

Opinion: Unqualified

Appendix 2: Other Audits and Grant Claims

Management Response to Quality Assurance Audits – Interim Management Report

Objective

To assess whether Senior Management's revised arrangements for ensuring prompt action is taken to address the improvements required where a children's social care file is assessed as 'inadequate', are operating effectively to minimise the risk to children.

Summary

The review found that the stages within the process for improving cases identified as inadequate were well designed, and when fully embedded should improve cases previously found to be inadequate in a timely way.

Support has been given to improve the monitoring around the process to ensure it is consistently followed, and deviations from it are identified at the earliest opportunity. The effectiveness of these arrangements will be reviewed later in the year.

Appendix 3: Stakeholder Surveys, Compliance with Professional Standards

1. Setting up and planning the audit (PSIAS 1200 / 2200)		
1.1	Did we show a good level of knowledge and understanding of your service when discussing the potential scope and objective to be covered by the audit before fieldwork took place?	82%
2. Performing the audit (PSIAS 2300)		
2.1	Did we work effectively with you when doing the audit to minimise the impact on your service?	100%
2.2	Were we able to talk knowledgeably with you about information provided to us and queries we had during the audit?	85%
3. Communicating results (PSIAS 2400) and Improving governance, risk management and control processes (PSIAS 2100)		
3.1	Did we keep you informed of the progress of the audit and issues arising from the work in timely manner?	91%
3.2	Did we effectively explain to you where we felt action was required to improve your arrangements and why?	88%
3.3	Was the report fair and reflective of the work done by audit and the issues found as discussed with you?	91%
4. Independence and Objectivity (PSIAS 1100)		
4.1	Did we provide relevant evidence to back up our findings if required?	84%
4.2	At the end of the audit, did you understand the rationale for the overall opinion given?	96%
5. Managing the Internal Audit Activity (PSIAS 2000)		
6.1	Do you think internal audit adds value to the Council?	97%

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Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 14th September 2018

Action required	Current status	Date
Attribute Standards		
1100 Independence and Objectivity		
<i>1111 Direct Interaction with the Board</i>		
Re-establish annual Audit Committee performance assessments in line with good practice.	<p>New good practice guidance was published in May 2018. Good practice workshop is being undertaken with the Audit Committee in September 2018.</p> <p>At some point, an assessment of compliance with CIPFA's best practice expectations should be produced. This can then be considered as part of a wider review of the Council's governance and assurance framework.</p>	HoIA, 31 March 2019
1200 Proficiency and Due Professional Care		
<i>1230 Continuing Professional Development</i>		
Continue with the recruitment programme for professional audit staff during 2017/18.	<p>No further recruitment was undertaken in 2017/18.</p> <p>In April 2018, an experienced Senior Auditor on the team was promoted to Audit Manager.</p> <p>In July 2018 a current council employee was seconded into an Audit trainee role with a view to making this appointment permanent.</p> <p>This leaves the combined team with six vacancies out of ten posts. The intention is to fill some of the posts with graduates or school leavers, who will be put through a relevant training programme.</p>	Implemented and ongoing
Create and then recruit to the Business Support function that will support both the Internal Audit and Counter Fraud & Investigation Directorate.	<p>The Business Support Team is in the process of taking over the relevant functions from the two teams.</p> <p>The capacity of the team to deliver the increased</p>	HoIA, 31 Dec 2018

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 14th September 2018

Action required	Current status	Date
	workload will be monitored over the autumn.	
1300 Quality Assurance and Improvement Programme		
Re-introduce cold file reviews when more fully staffed and include a sample of contractor files.	This has now been built into the Audit Strategy presented to Audit Committee in April 2018. This is not currently a priority due to the positive outcome of the PSIAS Inspection in October 2017, but will be introduced when there is sufficient resource in the team.	To be determined
1311 Internal Assessments		
Reinstate a full set off performance indicators once the team is more fully resourced with in-house staff.	This has now been built into the Audit Strategy presented to Audit Committee in April 2018 and will be implemented as soon as is practical.	To be determined
2000 Performance Standards		
2000 Managing the Internal Audit Activity		
2010 Planning		
Summarise the activities considered significant enough to warrant periodic, independent challenge by internal audit. Present the list periodically to senior management and the Audit Committee as part of the audit planning process.	This will form part of the papers presented to support the 2019/20 Audit Plan.	HoIA, 31Mar 2019
Consider how to split out time allocated to a review on: <ul style="list-style-type: none"> • pure audit work • advice and support. 	The time recording system will be amended to capture advice and support given throughout audits. This will be reviewed for effectiveness over the next six months.	AMs, 31 March 2019

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 14th September 2018

Action required	Current status	Date
2030 Resource Management		
When resources allow, arrange more regular meetings with individual Group Managers as required, to help progress work in the Audit Plan.	These sessions have been taking place throughout 2018/19 as audits have been planned and set up. This work will continue.	AMs, 31 Mar 2019
2040 Policies and Procedures		
Refresh the Audit Manual and supporting forms to reflect: <ul style="list-style-type: none"> updates in the Standards current working practices any issues arising from the independent external assessment. 	<p>Most of this work is still in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.</p> <p>Work is also needed to update the Audit Manual to detail the approach adopted by the team which ensures compliance General Data Protection Regulations (GDPR) from May 2018.</p>	AMs, 31 Mar 2019
2050 Co-ordination and Reliance		
At all clients, further develop the "other assurance" element of the audit risk assessments particularly with regard to corporate business management processes, as part of the 2018/19 audit planning round.	This work has commenced as part of the Audit Planning process for 2018/19. This will be developed throughout the year as audit work is completed and as part of the 2019/20 audit planning process.	HoIA, 31 Mar 2019
2100 Nature of Work		
2110 Governance		
Assess whether an ethical governance audit should be included in 2018/19 Audit Plan.	This will be considered as part of the audit planning for 2019/20.	HoIA, 31 March 2019

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 14th September 2018

Action required	Current status	Date
2200 Engagement Planning		
2210 Engagement Objectives		
<p>Make sure that the audit approach makes the links to performance management as part of the planning process.</p>	<p>The audit planning form requires auditors to consider what criteria or measures of success management have established to determine whether the activity's objectives are being achieved.</p> <p>Focus will be given to assess the effectiveness and appropriateness of these measures in future audits.</p> <p><i>(Also see Standard 2040 about Policies and Procedures)</i></p>	<p>AMs, 31 March 2019</p>
2300 Performing the Engagement		
2330 Documenting Information		
<p>Set up a project to check all files and destroy whatever is necessary to comply with the Retention Policy.</p>	<p>This project is well underway with document disposal and retention work being undertaken on all client files.</p> <p>Disposal of paper files is complete and the review of electronic files continues.</p> <p>The team are awaiting the publication of a corporate retention schedule detailing requirements around personal data held in areas such as electronic personnel files.</p> <p>A Disposal and Retention Log is in use, which also serves as the service's Information Asset Register.</p>	<p>BSM, 31 March 2019</p>

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 14th September 2018

Action required	Current status	Date
2400 Communicating Results		
2410 Criteria for Communicating		
<p>Include an instruction in the operational protocol that meetings should always be held to:</p> <ul style="list-style-type: none"> • feedback findings at the conclusion of fieldwork • discuss the draft report. <p>103</p>	<p>Operational protocol documents for in house staff (Audit Management Checklist) and the “Ways of Working” document with contractors are clear about discussing draft reports with clients.</p> <p>Both documents need to be amended to clarify expectations that:</p> <ul style="list-style-type: none"> • findings will be fed back during the audit, so there are no surprises • all auditors will have a final feedback meeting on conclusion of the fieldwork. 	<p>AMs, 30 Sept 2018</p>
<p>Reassess the reporting templates as part of updating the Audit Manual, to see how underlying issues with the Council's governance arrangements could be highlighted.</p>	<p>This will be reassessed after senior management have undertaken the review of the risk management, control and governance arrangements that is due following the introduction of the council's new vision and strategic framework.</p>	<p>HoIA, 31 Dec 2018</p>
2420 Quality of Communications		
<p>Build triggers into the Audit Manual that remind staff to keep clients informed of when reports can be expected and if there are delays in producing them.</p>	<p>Work outstanding is to:</p> <ul style="list-style-type: none"> • amend the Planning, Fieldwork and Reporting sections of the Audit Management Checklist for in house staff • add this to the “Ways of Working” document with contractors. <p><i>(Also see Standard 2030 About Resource Management regarding monitoring delivery of work which also contributes to this action).</i></p>	<p>AMs, 30 Sept 2018</p>

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 14th September 2018

Action required	Current status	Date
Reinstate target for issuing draft reports once the team is more fully resourced.	This has now been built into the Audit Strategy presented to Audit Committee in April 2018 and will be a focus of the team from now on.	Implemented
Complete the project on upgrading / refreshing how we use APACE, our time recording / performance management data base.	This work has been paused whilst the Business Support Manager reviews the list of improvements and changes required to the database's functionality with the new Head of Internal Audit.	BSM, 31Dec 2018
<p>104</p> <p>Use APACE effectively to timetable the delivery of audits and monitor progress against both budgets and timelines.</p>	<p>APACE, in conjunction with the Internal Audit Resource Schedule, is now being used to:</p> <ul style="list-style-type: none"> • allocate, phase and cost audits • allow the Business Support Team to monitor the delivery of audits against both the Audit Plan and the financial profile. <p>Reports on job budget monitoring are being provided to the team on a weekly basis.</p> <p>Opportunities to do this more effectively are being considered in the projected noted above.</p>	Implemented
<p>Include a requirement in the Audit Manual about:</p> <ul style="list-style-type: none"> • issuing the guidance to and discussing it with clients within the draft terms of reference • attaching it as an appendix to the report. 	This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.	AMs, 31 Mar 2019
2431 Engagement Disclosure of Non-Conformance		
Consider updating the Audit Manual with a small section covering this particular situation and referencing PS2431.	This is still work in progress. It will take longer than anticipated to complete due to the changes in the senior management team between Jan and Mar 2018.	AMs, 31 Mar 2019

Appendix 4: Compliance with UK Public Sector Internal Audit Standards Action Plan (SBC Version) as at 14th September 2018

Action required	Current status	Date
2500 Monitoring Progress		
Introduce the process for management to provide the Audit Committee with this assurance for reports with high and satisfactory audit opinions.	The Business Support Team is currently working on this project with Council officers.	BSM, 31 Jan 2019
Finalise the arrangements for reporting to Audit Committee on management sign off of action plans for audit reports with high or satisfactory opinions.	The Business Support Team is currently working on this project with Council officers.	BSM, 31 Jan 2019
Design the content and format of a report to go to Audit Committee, for each client that shows the progress made by services in addressing agreed actions, for each live audit report.	The Business Support Team is currently working on this project with Council officers.	BSM, 31 Jan 2019

Key:

- HoIA, Head of Internal Audit
- AM, Audit Manager
- BSM, Business Support Manager

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CIPFA Better Governance Forum

Audit Committee Update

– helping audit committees to be effective

Developing an Effective Annual Governance Statement

March 2018

Dear Audit Committee Member,

I hope you find the first Local Audit Quality Forum a useful and worthwhile day. CIPFA believes that audit committees have a valuable role to play in supporting good governance, strong public financial management and effective internal audit and external audit, so we are very pleased to support this initiative.

I hope this briefing will be a useful resource to supplement the day. It looks at the steps an authority can take to develop an effective annual governance statement and the contribution the audit committee can make to that.

The briefing is available to download free from our website: www.cipfa.org/services/support-for-audit-committees.

Our Position Statement on Audit Committees will also be available to download from the CIPFA website shortly.

Best wishes

Rob Whiteman
Chief Executive
CIPFA

Developing an Effective Annual Governance Statement

CIPFA and Solace introduced a new governance framework, *Developing Good Governance in Local Government: Framework*, in April 2016, with seven new governance principles. By adopting the new Framework local authorities should be ensuring that their governance arrangements in practice are in accordance with the principles. The annual governance statement (AGS) is a mandatory requirement for local government bodies set out in statutory regulations¹. In essence, it is an accountability statement from each local government body to stakeholders on how well it has delivered on governance over the course of the previous year. The benchmarks that are used to make that statement are the principles in the Framework.

What does the guidance say?

The guidance for the AGS is included along with the Framework and it builds on the previous requirements². In addition to the organisation acknowledging its responsibility for ensuring governance is effective, the AGS should:

- focus on outcomes and value for money
- evaluate against the local code and principles
- be in an open and readable style
- include an opinion on whether arrangements are fit for purpose
- include identification of significant governance issues and an action plan to address them
- explain action taken in the year to address the significant governance issues identified in the previous year's statement
- be signed by the chief executive and leading member in a council. The police and crime commissioner (PCC) and chief constable should sign theirs.

CIPFA has not established any 'set text' for authorities to use in acknowledging their responsibility for the governance framework. Many authorities have tended to use the original text from the 2007 guidance, but CIPFA has not included this in the latest guidance in order to encourage more flexibility.

Who is the audience?

The AGS is prepared to account to your stakeholders and they are wide and varied. They include:

- local citizens
- local businesses
- partners
- Ministry of Housing, Communities and Local Government (MHCLG)
- external auditors, inspectorates and regulators.

In addition, it should also be a statement that is of value internally – to other members of the governing body and to staff.

What makes a meaningful statement?

The most important way to make the statement meaningful is to ensure that it is an open and honest reflection of your governance and your current challenges. It has been known for the AGS to contain 'window dressing statements' to gloss over areas of poor performance or to fudge the effectiveness of interventions. Where that is the case, the AGS adds little value and

¹ In England the [Accounts and Audit Regulations 2015](#)

² [Delivering Good Governance in Local Government: Framework \(Addendum\)](#) CIPFA 2012

doesn't build confidence in the leadership of the organisation. One of the key aspects of the AGS is the identification of areas for improvement and the associated action plan. Where these are done well the AGS becomes a meaningful tool for improving governance.

The AGS should also provide a clear evaluation against the principles of good governance and an opinion of whether the arrangements are fit for purpose or not. If the opinion is vague or not included then again the AGS does not send a clear message about accountability.

What can be done to make the statement more effective?

Effectiveness of an AGS will be improved if it more successfully communicates the key messages. There are a number of approaches that some authorities have taken to make their AGS more effective:

- keeping it short and focused – where an organisation has an up-to-date local code that sets out their arrangements, then the AGS can make reference to that rather than repeat the detail
- using diagrams to explain key elements
- using colour or pictures to engage the reader.

Regardless of how well the AGS is written, it will not be effective if it is not regarded as important by those charged with governance and the leadership team.

What shouldn't we do?

There are a number of pitfalls in preparing an AGS. These are some of the common ones:

- not ensuring that a range of perspectives support the AGS
- making it too long and wordy
- including too much description rather than evaluation
- omitting the opinion on whether the arrangements are fit for purpose or not
- not being explicit about the actions that will be taken to address the governance issues identified
- not accounting for action taken to address previous weaknesses.

How can the audit committee help?

The audit committee can play a very valuable role in the development of the AGS and in the finished look of the statement. The committee should understand the process that has been undertaken to review governance and so should be able to see how the conclusions in the AGS have been arrived at. There should be no real surprises for the committee.

The committee can provide a valuable reality check for the draft document as well. Is it well written and clearly presented? Is the action plan adequate and realistic?

The committee can send an important message about the value and importance of the AGS, which will support those providing assurance to support its conclusions. Once the AGS has been approved, the committee can review progress in implementing the actions, so helping to ensure that the AGS is meaningful and is an effective tool for improvement in governance.

A note on timing

For the 2017/18 AGS in England the deadline for approval and publication of the statement will be brought forward to 31 July instead of 30 September. This is a requirement of the [Accounts and Audit Regulations 2015](#). As a result, committees may find that the AGS is appearing on their agendas earlier than in previous years.

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